



**Washington State Auditor's Office**

Government that works for citizens

# **Financial Statements and Federal Single Audit Report**

## **City of Lakewood**

**Pierce County**

**For the period January 1, 2015 through December 31, 2015**

**Published July 28, 2016**

**Report No. 1017170**





## Washington State Auditor's Office

July 28, 2016

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

### **Report on Financial Statements and Federal Single Audit**

Please find attached our report on the City of Lakewood's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

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# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Lakewood  
Pierce County  
January 1, 2015 through December 31, 2015**

## SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Lakewood are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

### Financial Statements

We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

### Federal Awards

#### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction
20.319	ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**City of Lakewood  
Pierce County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lakewood, Pierce County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 21, 2016. As discussed in Note 17 to the financial statements, during the year ended December 31, 2015, the City implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **PURPOSE OF THIS REPORT**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'X'.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

July 21, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Lakewood  
Pierce County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Lakewood, Pierce County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal

program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

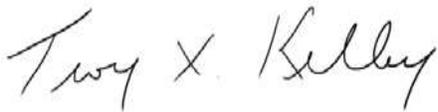
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

July 21, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Lakewood Pierce County January 1, 2015 through December 31, 2015

Mayor and City Council  
City of Lakewood  
Lakewood, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lakewood, Pierce County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed on page 16.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Lakewood, as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Community Development Block Grant funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Matters of Emphasis**

As discussed in Note 17 to the financial statements, in 2015, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 17 through 29 and pension plan information on pages 73 through 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of

America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2016 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large "X" between the first and last names.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

July 21, 2016

## FINANCIAL SECTION

**City of Lakewood  
Pierce County  
January 1, 2015 through December 31, 2015**

### **REQUIRED SUPPLEMENTARY INFORMATION**

Management's Discussion and Analysis – 2015

### **BASIC FINANCIAL STATEMENTS**

Statement of Net Position – 2015

Statement of Activities – 2015

Balance Sheet – Governmental Funds – 2015

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position – 2015

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds – 2015

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund – 2015

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – CDBG Fund – 2015

Statement of Net Position – Proprietary Funds – 2015

Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds – 2015

Statement of Cash Flows – Proprietary Funds – 2015

Notes to Financial Statements – 2015

### **REQUIRED SUPPLEMENTARY INFORMATION**

Schedules of Proportionate Share of the Net Pension Liability (Asset) LEOFF 2 – 2015

Schedule of Employer Contributions LEOFF 2 – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Expenditures of Federal Awards – 2015

Notes to the Schedule of Expenditures of Federal Awards – 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Lakewood's annual financial report provides a narrative overview of the City's financial activities for the fiscal year ended December 31, 2015. This information should be read in conjunction with the preceding letter of transmittal, the financial statements and notes to the financial statements that follow.

### FINANCIAL HIGHLIGHTS

- The total assets of the City of Lakewood exceeded its liabilities at December 31, 2015 \$171.7 million. Capital assets (net of depreciation and related debt) account for 84% of this amount with a value of \$143.4 million. Of the remaining net position of \$28.3 million or 16%, \$22.5 million may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- The City's total net position increased by \$12.3 million, or 8% compared to 2014. Governmental activities increased by \$13.6 million and business-type activities decreased by \$1.3 million.
- Net investment in capital assets for governmental activities increased by \$7.7 million and unrestricted net position increased by \$5.0 million compared to 2014.
- Restricted net position increased by \$1.0 million, or 20% and is largely for funding of grants and capital projects.
- Governmental fund balances at year-end were \$13.1 million, a \$3.5 million increase over the prior year. Of this amount, a total of \$5.8 million, or 44% of the governmental fund balance is unassigned and available to fund ongoing activities. The remaining is earmarked for parks, transportation and sewer capital projects, local improvement district related debt, hotel/motel lodging tax, police seizure, grants, public works trust fund loan debt, petty cash, property abatement, and public art.
- Unassigned fund balance in the general fund was \$5.8 million, which increased by \$1.3 million or 29% from the prior year.
- The City's debt increased by \$1.3 million during the current fiscal year. LOCAL financing debt, public works trust fund loan, and a capital lease were added to long-term debt for an increase of \$1.9 million. This is offset by debt amounts redeemed of \$665 thousand in general obligation debt, public works trust fund loans, promissory note, special assessments debt, and capital lease which decreased by \$130 thousand, \$428 thousand, \$53 thousand, \$50 thousand, and \$3 thousand respectively. These changes reflect the annual debt service payments.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Lakewood's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements, and 3) notes to the financial statements.

In addition to the required components, the City's annual report also includes other supplementary information. The first set of supplementary information is the Combining Statements. These provide Balance Sheets, Schedules of Revenues, Expenditures, and Changes in Fund Balances with Budget to Actual Comparisons, Statement of Net Position, and Cash Flows for all Non-Major Funds. The other set of supplementary information is the Statistical Section. This section provides a four to ten-year (number of years presented based on availability of information) view of the City's revenues, expenditures, debt obligations and capacity, the City's largest taxpayers, and those entities with the largest employment within the City of Lakewood. This section provides a long-term perspective on the City's economy.

#### Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lakewood's finances in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City of Lakewood's assets and deferred outflows liabilities, and deferred inflows, with the difference reported as *net position*. This statement serves a purpose similar to that of a balance sheet in private business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lakewood that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Lakewood include law enforcement and public safety, construction and maintenance of streets, building inspection, municipal court services, jail services, community planning and development services, parks and recreation facilities, other community services and general administration. The business-type activities of the City include surface water management.

The City has no separately identified component units included in the government-wide financial statements or joint ventures.

The government-wide financial statements can be found immediately following this MD&A.

### **Fund Financial Statements**

The annual financial report includes fund financial statements in addition to the government-wide financial statements. While the government-wide statements present the City's finances based on the type of activity, general government versus business-type, the fund financial statements are presented by fund type such as the general funds, special revenue funds, and proprietary funds. A fund is a specific fiscal and accounting entity with a self-balancing set of accounts used to account for specific activities or meet certain objectives. Funds are often set up in accordance with special regulations, restriction or limitations. The City of Lakewood uses fund accounting to ensure and show compliance with finance-related legal requirements. The City's funds are divided into two categories: governmental funds and proprietary funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions as are reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lakewood maintains twenty-two individual governmental funds. The City's four major governmental funds, the General Fund, CDBG Fund, LID Debt Service Fund, and Transportation Capital Fund are presented separately in the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The remaining governmental funds are combined into a single column labeled Nonmajor Governmental Funds. Individual fund data for each of the nonmajor governmental funds can be found in combining statements later on in this report.

The City maintains control over its operating funds through the adoption of the biennial budget. Budgets are adopted at the fund level and according to state law. A budgetary comparison statement is presented for the General Fund and CDBG Fund as a basic financial statement.

The basic governmental fund financial statements can be found on pages after the government-wide statements of this report.

## Proprietary Funds

The City of Lakewood maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide statements. The City uses enterprise funds to account for its surface water management. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet and equipment, information technology, property management and risk management.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Surface Water Management Fund. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found following the governmental fund statements of this report.

## Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents the combining statements for non-major governmental funds, internal service funds, and capital assets of governmental funds.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This section provides analysis of the government-wide financial statements including long-term and short-term information about the City's overall financial condition. The following tables address the financial results of the City as a whole.

### CONDENSED STATEMENT OF NET POSITION As of December 31, 2015 and 2014

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 29,003,642	\$ 21,759,983	\$ 6,191,037	\$ 7,515,212	\$ 35,194,679	\$ 29,275,195
Capital assets and CIP, net of accum. depreciation	121,540,008	112,644,013	32,733,409	33,001,351	154,273,417	145,645,364
Total Assets	150,543,650	134,403,996	38,924,446	40,516,563	189,468,096	174,920,559
Deferred outflows of resources	632,205	-	-	-	632,205	-
Total deferred outflows of resources	632,205	-	-	-	632,205	-
Current liabilities	5,993,711	4,608,966	198,105	472,831	6,191,816	5,081,797
Long-term liabilities	11,108,440	10,392,750	65,551	65,681	11,173,991	10,458,431
Total Liabilities	17,102,151	15,001,716	263,656	538,512	17,365,807	15,540,228
Deferred inflows of resources	1,060,637	-	-	-	1,060,637	-
Total deferred outflows of resources	1,060,637	-	-	-	1,060,637	-
Net Position:						
Net investment in capital assets	110,660,825	103,007,479	32,733,409	33,001,350	143,394,234	136,008,829
Restricted	5,806,134	4,829,728	-	-	5,806,134	4,829,728
Unrestricted	16,546,108	11,565,073	5,927,381	6,976,699	22,473,489	18,541,772
Total Net Position	\$ 133,013,067	\$ 119,402,280	\$ 38,660,790	\$ 39,978,049	\$ 171,673,857	\$ 159,380,329

## **Analysis of Net Position**

Total net position of the primary government of \$171.7 million at December 31, 2015 increased \$12.3 million or 7.7% compared to December 31, 2014. The increase is due to general governmental activities which increased by \$13.6 million, offset by a decrease in business type activities of \$1.3 million.

The largest component of the City's net position, 83.5% or \$143.4 million, is its net investment in capital assets. These capital assets such as land, streets, trails, parks, police vehicles, and parks equipment are used to provide services to the citizens. Consequently, these assets are not available to sell and convert to cash for future spending.

Approximately 35.8% or \$2.1 million of the City's restricted net position is earmarked for capital improvement projects. \$1.6 million is earmarked to the Transportation Capital Fund, and \$477 thousand is earmarked for capital in the Real Estate Excise Tax Fund. Some of the major projects are Bridgeport Way 83<sup>rd</sup>-75<sup>th</sup>, Bridgeport Way JBLM – I-5, LED Street Light Retrofit, Steilacoom Boulevard Safety Improvements, South Tacoma Way (Steilacoom Blvd to 88<sup>th</sup>), and Madigan Access Improvements. The City attempts to fund capital construction projects on a pay-as-you-go basis, aggressively pursuing transportation grant funding and cost sharing with developers to construct large projects in the City that impact the transportation system.

The balance of the City's restricted net position of \$5.8 million is divided as follows: \$1.5 million or 25.8% for debt service payments; \$1.3 million or 21.9% for Hotel/Motel Lodging Tax for tourism and related activities, \$153 thousand or 2.6% for the Neighborhood Stabilization Program grant; \$48 thousand or 0.8% for the Office of Economic Adjustment grant, and \$67 thousand or 1.2% for Community Development Block grants; \$688 thousand or 11.9% for law enforcement operations. Of the \$22.5 million unrestricted net position, \$5.9 million is earmarked for Surface Water Management and \$16.6 million may be used to meet ongoing obligations to citizens and creditors. Examples of other City obligations for which the remaining unrestricted net position may be used are public safety, parks maintenance, capital projects, street operations and maintenance.

At the end of the fiscal year, the City of Lakewood reported positive balances in all three categories of net position, for the government as a whole, as well as for the separate governmental and business-type activities.

## **Governmental Activities**

Current and other assets increased by \$7.2 million or 33.3% primarily due to the addition of net pension asset of \$3.5 million for LEOFF GASB 68 pension reporting, \$2.8 million increase in due from other governments for various capital projects (LED streetlight retrofit, transportation projects), \$2.7 million increase in cash and cash equivalents due to increases in tax revenue (sales tax, gambling tax, property tax) and grants, offset by a decrease in investments of \$1.6 million due to investment maturity.

Capitals assets and construction in progress, net of accumulated depreciation increased \$8.9 million or 7.9% primarily due to a net increase in capital improvement projects in the Transportation Construction in Progress (CIP) Fund. CIP net increase of \$10.6 million is primarily due to the increase of \$11.6 million in CIP composed of \$3.3 million for Bridgeport Way (83<sup>rd</sup> to 75<sup>th</sup>), \$1.9 million Madigan Access, \$1.5 million for LED Streetlights, \$787 thousand for Steilacoom Boulevard Safety Improvements, \$769 thousand for Lakewood Traffic Signal Upgrade, \$717 thousand for Woodbrook Sewer Extension, and \$3.5 million in multiple projects in the Transportation CIP, Sewer CIP, and Parks CIP funds. This increase is offset by a decrease to CIP primarily due to capitalizing Safe Routes to Schools projects, and Street Rehab projects totaling \$1.0 million. Land increased by \$654 thousand due to the addition of Springbrook Park, Right of Way acquisitions, and donated property. Machinery and equipment increased by \$830 thousand primarily due to adding \$1.3 million in fleet & equipment offset by current year depreciation. Buildings and Improvements other than buildings had a net decrease of \$3.2 million primarily to the current year depreciation on the assets.

Long-term liabilities increased by \$716 thousand or 7% due to the addition of LOCAL Financing debt of \$1.6 million, Public works trust fund loan of \$179 thousand, and capital lease of \$40 thousand, offset by lower outstanding balances in the remaining GO Bond debt, Special Assessment Bonds, and Public Works Trust Fund loans.

Other liabilities increased by \$1.4 million or 30% due to an increase in long-term debt due in one year of \$568 thousand, in accounts payable and accruals of \$640 thousand primarily in the General Fund and Transportation CIP Fund due to timing of invoice payments, and in unearned revenue of \$230 thousand primarily due to an increase of \$204 thousand in the OEA/SSMCP Grant Fund.

Net investments in capital assets increased \$7.7 million or 7% primarily due to an increase in transportation capital assets, offset by an increase in outstanding long-term debt.

Restricted net position for capital projects, amounts that must be used in accordance with external restrictions, increased \$976 thousand or 20.2% from the prior year primarily due to an increase in debt service fund of \$452 thousand, increase in tourism related activities funding of \$245 thousand, increase in amounts restricted for capital projects of \$162 thousand, and increase in law enforcement funding of \$128 thousand.

### **Business-Type Activities**

Current and other assets decreased by \$1.3 million or 18% primarily due to capital project expenditures.

Capital assets and construction in progress, net of accumulated depreciation decreased by \$268 thousand or 1% due to depreciation of \$1.2 million and \$27 thousand for depreciation of infrastructure and machinery and equipment respectively. This decrease was offset by additions to construction in progress and land including: \$77 thousand for the permanent public works operations and maintenance facility; \$208 thousand for Outfall Water Quality Retrofit; \$70 thousand for 2015 capital drainage; and \$11 thousand for the Zircon Mudslide; and \$190 thousand for Wards Lake land acquisition

Current liabilities decreased by \$275 thousand or 51% in 2015 due to a decrease of \$214 thousand in accounts payable and accruals at the end of the year, and a decrease of \$60 thousand in the balance due to other governments.

Net investments in capital assets decreased \$268 thousand or 1% primarily due to depreciation in Surface Water Management capital assets. The City had no restricted net position for business-type activities. Unrestricted net position decreased by \$1.0 million or 15% due primarily to the increase in transfers to parks and transportation capital projects for SWM's share of costs.

**CHANGES IN NET POSITION**  
**For the Years Ended December 31, 2015 and 2014**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Programs revenues:						
Charges for services	\$ 8,896,085	\$ 10,864,250	\$ 2,740,257	\$ 2,723,885	\$ 11,636,342	\$ 13,588,135
Operating grants & contrib.	4,784,823	3,162,494	-	-	4,784,823	3,162,494
Capital grants & contrib.	7,360,847	3,783,553	210,814	276,528	7,571,661	4,060,081
General revenues:						
Property tax	6,652,050	6,424,206	-	-	6,652,050	6,424,206
Sales tax	10,183,652	9,697,424	-	-	10,183,652	9,697,424
Utility tax	5,703,609	5,747,855	-	-	5,703,609	5,747,855
Excise tax	1,509,250	1,106,755	-	-	1,509,250	1,106,755
Gambling tax	2,771,934	2,482,403	-	-	2,771,934	2,482,403
Lodging tax	691,797	559,866	-	-	691,797	559,866
Other tax	1,140,426	2,473,139	-	-	1,140,426	2,473,139
Investment earning	202,330	220,902	14,899	11,807	217,229	232,709
Miscellaneous	1,070,984	373,856	500	-	1,071,484	373,856
Other/miscellaneous	-	-	-	9,435	-	9,435
Total Revenue	<u>50,967,787</u>	<u>46,896,703</u>	<u>2,966,470</u>	<u>3,021,655</u>	<u>53,934,257</u>	<u>49,918,358</u>
Expenses:						
General government	4,359,727	7,481,025	-	-	4,359,727	7,481,025
Public safety	22,000,148	21,485,849	-	-	22,000,148	21,485,849
Utilities and environment	20,035	59,319	-	-	20,035	59,319
Transportation	6,097,346	6,157,222	-	-	6,097,346	6,157,222
Social Services	585,277	589,071	-	-	585,277	589,071
Natural & Economic environment	3,985,837	4,970,852	-	-	3,985,837	4,970,852
Culture and recreation	2,029,567	1,775,854	-	-	2,029,567	1,775,854
Judicial	1,536,681	1,490,816	-	-	1,536,681	1,490,816
Interest on long-term debt	268,910	237,174	-	-	268,910	237,174
Surface water management	-	-	3,243,955	3,141,793	3,243,955	3,141,793
Total Expenses	<u>40,883,528</u>	<u>44,247,182</u>	<u>3,243,955</u>	<u>3,141,793</u>	<u>44,127,483</u>	<u>47,388,975</u>
Change in net position before transfers	10,084,259	2,649,521	(277,485)	(120,138)	9,806,774	2,529,383
Transfers	1,039,772	(189,622)	(1,039,772)	189,622	-	-
Change in net position	11,124,031	2,459,899	(1,317,257)	69,484	9,806,774	2,529,383
Net position - beginning	119,402,278	116,947,381	39,978,047	39,908,563	159,380,325	156,855,944
Net effect - change in accounting for pensions	2,457,415	-	-	-	2,457,415	-
Prior period adjustment	29,343	(5,000)	-	-	29,343	(5,000)
Adjusted net position - beginning	121,889,036	116,942,381	39,978,047	39,908,563	161,867,083	156,850,944
Net position - ending	\$ 133,013,067	\$ 119,402,280	\$ 38,660,790	\$ 39,978,047	\$ 171,673,857	\$ 159,380,327

**Analysis of the Change in Net Position**

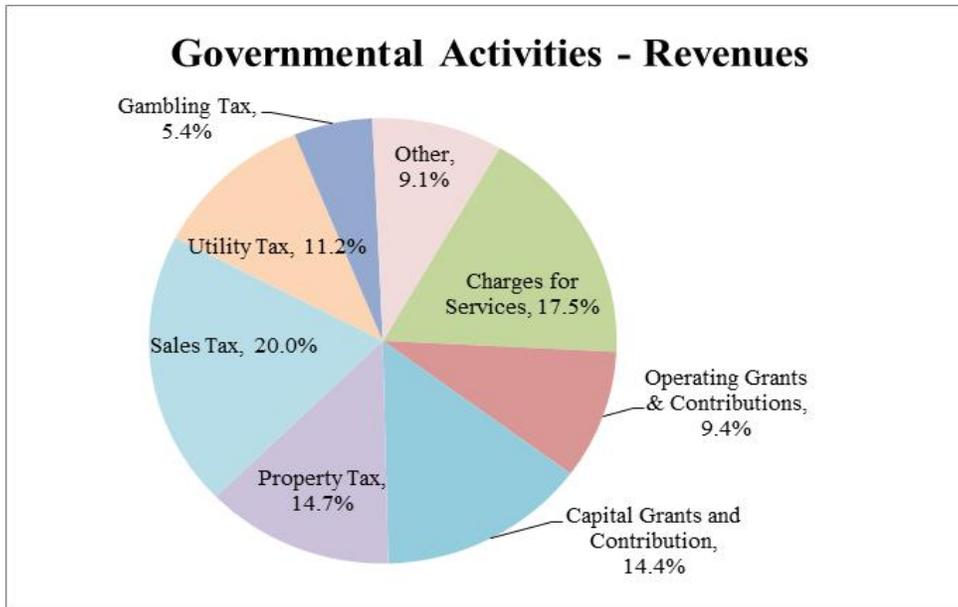
Total government-wide revenues of the primary government increased \$4.0 million or 8% and total expenses decreased \$3.3 or 6.9% from the prior year. These changes are discussed in more detail below.

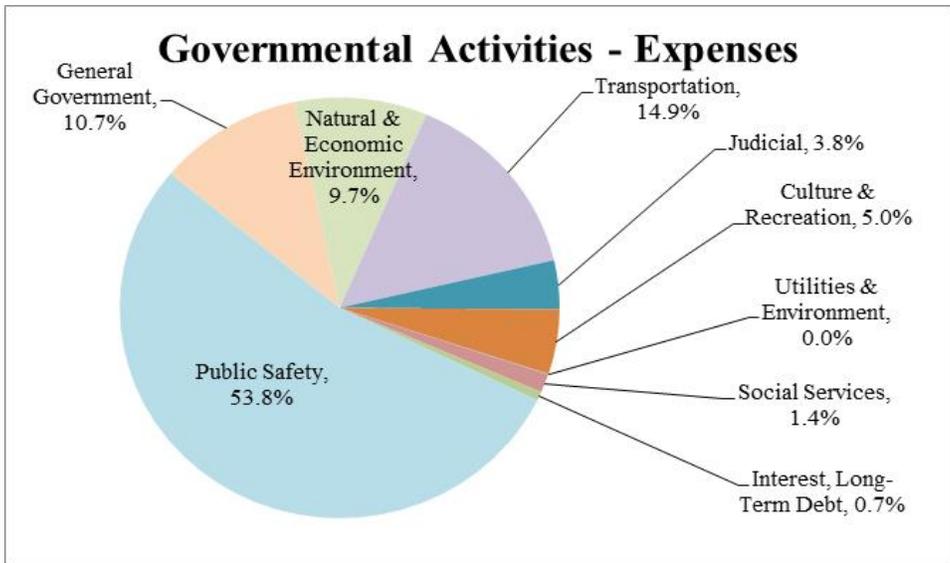
**Governmental Activities**

Governmental activities increased the City’s change in net position by \$8.7 million or 352% of the total change in net position of \$7.3 million. Total revenues for governmental activities from prior year increased \$4.1 million or 8%.

The increase is mainly due to: \$3.6 million or 95% increase in transportation capital grants & contributions; \$1.6 million or 51% increase in operating grants and contributions primarily for a reclassification of motor vehicle fuel tax previously reported as other taxes; \$1.5 million combined increase for property, sales, excise, gambling, and hotel/lodging taxes, offset by a decrease of \$2.0 million in charges for services (decrease in engineering services revenue of \$475 thousand, decrease in mitigation fees of \$300 thousand, decrease in charges for services of \$306 thousand due to net change in deferred inflows of resources for municipal court, abatements, LID, and PWTF, decrease in development services permits and fees of \$123 thousand, a decrease of \$120 thousand in fines and forfeitures, decrease of property abatement charges and settlements of \$65 thousand, decrease of police contract revenue of \$42 thousand, decrease of \$14 thousand for municipal court services); and \$1.3 million in other taxes reclassified as operating grants and contributions).

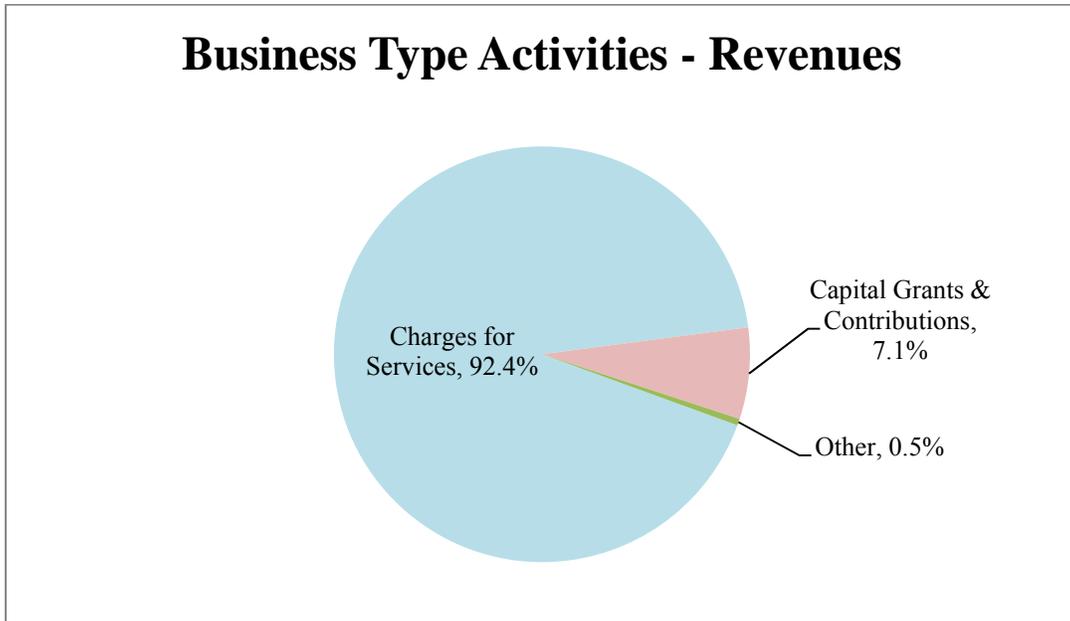
Total expenses for governmental activities decreased \$3.4 million or 8%. The decrease is mainly due to a \$3.1 million or 42% reduction in general government expenses (due to a decrease in \$1.8 million in administrative service for internal service charges, due to a decrease in \$826 thousand in property management, now accounted for under internal service funds) as well as a reduction in natural & economic environment expenses of \$985 thousand or 20% (due to a decrease in CDBG expenditures of \$440 thousand, and due to a decrease of \$232 thousand in Neighborhood Stabilization). These decreases were offset by \$514 thousand or 2% and \$254 thousand increases in public safety expense and culture and recreation, respectively. Transfers had a net increase of \$1.2 million primarily due to the addition of transfers to the Transportation CIP Fund.





**Business-Type Activities**

Business-type activities of the City’s Surface Water Management system decreased the City’s net position by \$1.4 million. Key elements of the decrease are as follows: total revenues decreased by \$55 thousand or 2% from 2014. The decrease is primarily due to \$66 thousand reduction of capital grants and contributions received in 2015. Total expenditures increased by \$102 thousand or 3.3% from 2014. The increase is primarily due to an increase in operational expenses within the surface water management utility. The remainder of the increase is due to a net increase in transfers of \$1.2 million to parks and transportation capital projects.



## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Lakewood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

The focus of the City of Lakewood's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of 2015, the City's governmental funds had a combined ending fund balance of \$13.1 million which increased by \$3.5 million or 36.2% from the prior year. Approximately \$5.8 million or 44% of this amount constitutes unassigned General Fund balance, which is available for spending at the City Council's discretion. The remainder of the fund balance is restricted (\$5.8 million) or committed (\$1.5 million) to indicate that it is not available for new spending because it has already been earmarked as previously discussed in the financial highlights.

The General Fund is the chief operating fund of the City. Total fund balance increased \$1.3 million or 29.0%. The increase in fund balance is due to a combination of revenue increases (property tax, sales tax, parks sales tax, criminal justice sales tax, gambling tax, franchise fee) as well as expenditure decrease due to both internal service fund savings and allocation of charges outside of the General Fund. Overall revenues for the General Fund increased by \$781 thousand or 2.2% compared to 2014 and overall expenditures decreased by \$1.7 million or 5.3% compared to 2014.

The CDBG Fund was established to account for revenues and expenditures associated with Community Development Block Grants (CDBG) and HOME Investment Partnership Act grants. Revenue and other resources reported in this fund include direct and indirect federal grants and state grants. The Grant Fund's ending fund balance increased by \$45 thousand in 2015. The increase is due to various revolving loan revenues exceeding expenditures.

The LID Debt Service Fund was created to account for the payment of special assessment bonds as well as the collection of assessments from property owners within the local improvement district (LID). Ending fund balance increased \$483 thousand dollars due to early payoff of debt by a major payer.

The Transportation Capital Projects Fund was established to account for capital projects related to street infrastructure. In 2015 the ending fund balance increased \$1.6 million due to the increase in transfers from General Fund and REET Fund for future spending on various projects.

### Proprietary Fund

The City of Lakewood's proprietary funds provide the same type of information found in the government-wide, but in more detail. Unrestricted net position of the Surface Water Management Fund at the end of the year amounted to \$5.8 million and the total change in net position was a decrease of \$1.3 million. Other factors concerning the finances of this fund have already been addressed in the discussion of the City of Lakewood's business-type activities.

## GENERAL FUND BUDGETARY AND ACTUAL HIGHLIGHTS

The City of Lakewood budgets on a biennial basis with each budget beginning in an odd numbered year. Appropriations for operating funds are authorized for two years, but must be reviewed and reauthorized by the City Council in the middle of the biennial period. In 2015, the City made three budget adjustments. The following discussion is reflective only of the current year of the biennium.

The General Fund operating expenditure budget increased by \$519 thousand between the original adopted budget and the final adjusted budget for 2015 fiscal year. The following are the major changes for the 2015 budget:

- Added \$201 thousand for Washington Cities Insurance Authority (WCIA) assessment increase
- Added \$207 thousand for public disclosure settlement
- Added \$45 thousand for public defender contract increase and transition cost

The following are adjustments to the revenues and other sources totaling \$309 thousand:

- Added \$270 thousand in various tax revenue collection increases
- Added \$41 thousand in transfer of excess proceeds from sale of asset of fleet/replacement reserves

The General Fund’s ending fund balance of \$5.8 million is \$2.1 million above the projected \$3.8 million for 2015 year-end. Compared to budget, revenues and other sources exceeded estimates by \$688 thousand or 2.0% while expenditures were below estimates by \$1.3 million or 4.2%.

- Revenues and other sources exceeding budget estimates include: \$235 thousand in sales tax; \$46 thousand in criminal justice sales tax; \$62 thousand in utility tax; \$265 thousand in gambling tax; \$113 thousand in franchise fees; \$25 thousand in parks sales tax; \$30 thousand in development services permits and fees; and \$73 thousand in grants and other one-time sources.
- Revenues and other sources below budget estimates include \$221 thousand in fines and forfeitures.
- Operating expenditures and other uses were below budget estimates by \$1.4 million thousand due to savings in: personnel costs of \$390 thousand; supplies of \$122 thousand; professional services of \$40 thousand; travel and training of \$40 thousand; and internal service charges (fleet and equipment reserves and fuel) of \$530 thousand.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The City of Lakewood’s investment in capital assets for its governmental and business-type activities as of December 31, 2015 amounts to \$154.3 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure, and construction in progress. For more details, please see Note 7.

**CAPITAL ASSETS AT YEAR-END, NET OF DEPRECIATION**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 21,739,802	\$ 21,085,421	\$ 1,854,447	\$ 1,854,447	\$ 23,594,249	\$ 22,939,868
Construction in progress	15,799,355	5,229,858	255,341	1,377,413	16,054,696	6,607,271
Building	21,740,716	22,265,043	1,831,731	163,318	23,572,447	22,428,361
Improvements other than buildings	58,199,662	60,833,632	-	-	58,199,662	60,833,632
Infrastructure	-	-	28,621,863	29,408,858	28,621,863	29,408,858
Machinery and equipment	4,060,475	3,230,059	170,026	197,314	4,230,501	3,427,373
Total Capital Assets	\$ 121,540,010	\$ 112,644,013	\$ 32,733,408	\$ 33,001,350	\$ 154,273,418	\$ 145,645,363

Major capital asset events during the current fiscal year included the expansion and improvement of city streets and traffic corridors for a total of \$10.9 million.

**Long-term debt**

At the end of 2015, the City of Lakewood had total GO bonded debt outstanding of \$3.7 million for future principal payments which are backed by the full faith and credit of the government. The remainder of the City’s debt represents Public Works Trust Fund Loans, Special Assessment Bonds, Notes Payable, Capital Lease, and Compensated Absences.

**LONG-TERM DEBT**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
2009 LTGO	\$ 1,995,000	\$ 2,110,000	\$ -	\$ -	\$ 1,995,000	\$ 2,110,000
2009 LTGO premium	31,160	33,560	-	-	31,160	33,560
LOCAL Financing	1,460,000	-	-	-	1,460,000	-
LOCAL Financing Premium	194,858	-	-	-	194,858	-
Public Works Trust Fund Loan	5,038,375	5,287,303	-	-	5,038,375	5,287,303
Promissory note (59th street)	579,374	632,713	-	-	579,374	632,713
Special Assessment w/ governmental commitments	1,523,121	1,572,959	-	-	1,523,121	1,572,959
Copiers - Capital Lease	57,295	-	-	-	57,295	-
Compensated absences	2,259,726	2,218,820	93,644	93,830	2,353,370	2,312,650
<b>Total</b>	<b>\$ 13,138,910</b>	<b>\$ 11,855,355</b>	<b>\$ 93,644</b>	<b>\$ 93,830</b>	<b>\$ 13,232,553</b>	<b>\$ 11,949,185</b>

The City’s total debt amount redeemed was \$3.2 million offset by amount issued of \$4.5 million.

In March 2014 Standard & Poor’s Ratings Services (S&P) raised the City’s credit rating from “A” to “AA-” with respect to the City’s General Obligation Bonds. At the same time, Standard & Poor’s affirmed the “A-” long-term rating on the City’s Special Assessment Bonds for Local Improvement District No. 1101, Series 2006. S&P affirmed a stable outlook based on its review of the City’s long-term debt.

Washington State statutes limit the amount of debt a government entity may issue to 7.5% of its total assessed valuation, subject to 60% majority vote of qualified electors. Of the 7.5% limit, 2.5% is for general purposes, 2.5% for open space/park facilities, and 2.5% for utilities. Non-voted general purpose indebtedness is limited to 1.5% of assessed valuation and combination of voted and non-voted general purpose indebtedness cannot exceed 2.5% of assessed valuation.

The City’s assessed valuation for 2015 was \$4.75 billion and the total amount of debt the City may issue is \$352 million. Remaining legal debt capacities as of December 31, 2015 are:

<b>Legally Remaining Debt Capacity</b>	
As of December 31, 2015	
General Government (no vote required)	\$ 67,189,100
General Government (3/5 majority vote required)	47,482,316
Parks and open space (3/5 majority vote required)	118,705,790
Utilities (3/5 majority vote required)	118,705,790
<b>Total Capacity</b>	<b>\$ 352,082,997</b>

Additional information on the City of Lakewood’s long-term debt can be found in Note 10 and in the Statistical Section of this report.

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The 2015/2016 budget gradually returns the City to sound financial footing by replenishing General Fund reserves to meet our 12% policy objective over a three year period beginning in 2015 and culminating in 2016. Using reserves and one-time monies to finance ongoing programs as was the case in recent years, only masks and pushes out the financial challenges facing the City. The City currently is at a tipping point where failing to address this issue only further weakens the City’s financial position. The 2015/2016 biennial budget ensures operating expenditures are within the constraints of available operating revenues and does not use reserves to balance the budget. As a result, the 2015/2016 biennial budget is compliant with the City’s financial policies.

As we move into 2015 and 2016, the following programs will undergo a review to provide for more effective delivery of services coupled with identification of funding for those programs currently not funded.

- Continue the development of a six-year financial forecast (2015-2020) that includes facts and assumptions to enable an accurate forecast of the financial future of the city to ensure whether adequate resources will be available to maintain current and projected city service levels with a particular focus on the impact of current economic conditions and, if not, develop strategies to address. The forecast will also serve as a tool to examine financial trends and identify opportunities, particularly as new services or programs are evaluated. The financial forecast will serve as the mechanism to ensure these investments, commitments and contractual obligations “pencil” for at least six years.
- The Community and Economic Development (CED) Department will undertake a coordinated effort to review the manner in which development services are provided. The focus is to improve processes and services to customers and identify areas for continuous improvement, including, turnaround times, predictability of plan reviews, consistency of inspections and overall client service and satisfaction. It will also include a review of fees and charges, program recovery ratios, and resource needs. The goal is to have a streamlined, coordinated, and predictable development services program that provides efficient review of project applications in a manner that meets the definition of success for both the City and prospective applicants. This approach is consistent with the policies contained in the city’s draft economic development comprehensive plan chapter that will come before City Council later this year.
- The Parks, Recreation and Community Services Department regularly reviews its fee structure for classes, programs and facility use using the cost recovery model included in the Legacy Plan. They will be reviewing the fee structure at the class and program level and develop a cost recovery policy that meets our community’s needs. The adoption of a pricing philosophy is crucial to ensure program affordability for the community while maintaining sustainable financing for the Department.
- The Municipal Court will continue its review for process improvements to include implementation of video arraignment and options to implement a paperless system.
- The Administrative Services Department will take the lead in developing financing options to address our short- and long-term needs in support of information technology and property management programs to include the accumulation of replacement reserves.
- The Police Department has initiated the development of a public safety benefit/cost review that will include a comparison of public safety statistics locally, regionally and in other communities nationwide that host a large military installation. This City Council goal will also focus on a review of our policing programs, community and regional partnerships and community safety resource team (CSRT) programs to determine, identify and report on resource allocation, program efficiencies and successes.

There are a continuing number of challenges facing the City currently and in the near term which impact fiscal stability, most notably the continued impacts of the economic challenges that began in December 2007 followed by a very tepid economic recovery as compared to previous recoveries. The result of this lack of economic recovery is that local governments such as our City will continue to face economic hardship and uncertainty given there is more of a recovery lag for local governments as compared to other sectors of the economy.

We face the uncertainty and unpredictability in financial and credit markets that still seems to have stymied economic growth locally, regionally and nationally. Our nation continues to face unemployment and under-employment numbers that are some of the highest in decades. We are also face legislative challenges particularly from the state as they look to balance their budgetary shortfalls and court ordered mandates, such as the McCleary decision. In recent years, the state has had a dramatic impact on cities from the loss of state shared revenues, increased public defender costs, and the loss of the public works trust fund loan program. Likewise the fiscal challenges and a myriad of domestic and international issues facing our federal government has resulted in reduced funding to cities and impact of the Affordable Care Act.

The impact of technology such as the explosion of social media means that local governments such as ours must adapt to a new way of community engagement and dialogue. It has also provided us the opportunity to increase transparency and accountability in how we conduct business and deliver services. The world today is much different from where we were two, five and ten years ago. It is much more complex and it is imperative that we change and adapt to these ever changing forces.

Despite all of this and much more, the City continues to address many challenges with respect to meeting service demands and the ability in providing them to our citizens. The financial challenges we face has required us to re-evaluate the paradigms that have been governing our City for a number of years. We have charted a course for achieving long-term financial sustainability

by beginning to reinvent the way we deliver services, investing in our employees and making smart infrastructure investments that will create jobs and build our tax base.

We will be looking to economic development, focusing primarily in our commercial areas to generate additional property and sales taxes. Locally, we see nothing but opportunity in our key commercial areas such as the Towne Center, Springbrook, Tillicum, and the Pacific Highway South corridor, which is directly adjacent to I-5 with multiple prime properties ready for redevelopment and revitalization. Areas such as the International District and Woodbrook Industrial Business Park area stand ready and available for new investment to create jobs and opportunity for Lakewood and our region. The generation of new revenues from redevelopment and revitalization in these areas will allow us to meet the growing demand for services. These actions will allow Lakewood to continue to support our community's quality of life while implementing our strategic goals for the future.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Lakewood's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Tho Kraus, Assistant City Manager/Administrative Services, City of Lakewood, 6000 Main Street SW, Lakewood, Washington 98499, telephone 253-983-7706, or visit the City's website at [www.cityoflakewood.us](http://www.cityoflakewood.us).

**City of Lakewood**  
**Statement of Net Position**  
December 31, 2015

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 11,615,452	\$ 4,873,719	\$ 16,489,171
Investments	210,325	1,000,101	1,210,426
Receivables (net)	8,641,942	17,790	8,659,732
Due from other governments	5,151,343	173,495	5,324,838
Prepaid items	10,000	-	10,000
Internal balances	(125,932)	125,932	-
Total current assets	<u>25,503,130</u>	<u>6,191,037</u>	<u>31,694,167</u>
Noncurrent assets:			
Net pension asset	3,500,512	-	3,500,512
Capital assets not being depreciated	37,539,156	2,109,789	39,648,945
Capital assets, net of accumulated depreciation	84,000,852	30,623,620	114,624,472
Total noncurrent assets	<u>125,040,520</u>	<u>32,733,409</u>	<u>157,773,929</u>
Total assets	<u>150,543,650</u>	<u>38,924,446</u>	<u>189,468,096</u>
<b>DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS</b>			
Total assets and deferred inflows of resources	<u>632,205</u>	<u>-</u>	<u>632,205</u>
	<u>151,175,855</u>	<u>38,924,446</u>	<u>190,100,301</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accruals	3,395,174	169,612	3,564,786
Deposits	92,299	400	92,699
Unearned revenue	266,195	-	266,195
Due to other governments	208,534	-	208,534
Contracts Payable	1,040	-	1,040
LT Due in one year	2,030,469	28,093	2,058,562
Total current liabilities	<u>5,993,711</u>	<u>198,105</u>	<u>6,191,816</u>
Noncurrent liabilities:			
LT Due in more than one year	10,206,925	65,551	10,272,476
Special assessment debt, with governmental commitments, due in more than one year	901,515	-	901,515
Total noncurrent liabilities	<u>11,108,440</u>	<u>65,551</u>	<u>11,173,991</u>
Total liabilities	<u>17,102,151</u>	<u>263,656</u>	<u>17,365,807</u>
<b>DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS</b>			
Total liabilities and deferred inflows of resources	<u>1,060,637</u>	<u>-</u>	<u>1,060,637</u>
	<u>18,162,788</u>	<u>263,656</u>	<u>18,426,444</u>
<b>NET POSITION</b>			
Net investment in capital assets	110,660,825	32,733,409	143,394,234
Restricted for:			
Capital projects	2,081,083	-	2,081,083
Debt Service	1,495,833	-	1,495,833
Grants	267,647	-	267,647
Law enforcement	688,431	-	688,431
Tourism related activities	1,273,140	-	1,273,140
Unrestricted	16,546,108	5,927,381	22,473,489
Total net position	<u>\$ 133,013,067</u>	<u>\$ 38,660,790</u>	<u>\$ 171,673,857</u>

The notes to financial statements are an integral part of this statement.

**City of Lakewood**  
**Statement of Activities**  
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental activities:							
General government	\$4,359,727	3,438,609	48,179	28,397	(844,542)	-	(844,542)
Public safety	22,000,148	1,022,674	2,042,607	-	(18,934,867)	-	(18,934,867)
Utilities	20,035	931,476	-	538,515	1,449,956	-	1,449,956
Transportation	6,097,346	56,942	1,565,498	6,522,992	2,048,086	-	2,048,086
Social services	585,277	-	5,840	-	(579,437)	-	(579,437)
Economic environment	3,687,473	1,130,094	-	-	(2,557,379)	-	(2,557,379)
Natural environment	298,364	79,665	1,122,699	-	904,000	-	904,000
Culture and recreation	2,029,567	266,151	-	270,943	(1,492,473)	-	(1,492,473)
Judicial	1,536,681	1,970,474	-	-	433,793	-	433,793
Debt interest	268,910	-	-	-	(268,910)	-	(268,910)
Total governmental activities	<u>40,883,528</u>	<u>8,896,085</u>	<u>4,784,823</u>	<u>7,360,847</u>	<u>(19,841,773)</u>	<u>-</u>	<u>(19,841,773)</u>
Business-type activities:							
Surface Water Management	<u>3,243,955</u>	<u>2,740,257</u>	<u>-</u>	<u>210,814</u>	<u>-</u>	<u>(292,884)</u>	<u>(292,884)</u>
Total business-type activities	<u>3,243,955</u>	<u>2,740,257</u>	<u>-</u>	<u>210,814</u>	<u>-</u>	<u>(292,884)</u>	<u>(292,884)</u>
Total primary government	<u>\$ 44,127,483</u>	<u>\$ 11,636,342</u>	<u>\$ 4,784,823</u>	<u>\$ 7,571,661</u>	<u>(19,841,773)</u>	<u>(292,884)</u>	<u>(20,134,657)</u>
General revenues:							
Property tax					6,652,050	-	6,652,050
Sales tax					10,183,652	-	10,183,652
Utility tax					5,703,609	-	5,703,609
Excise tax					1,509,250	-	1,509,250
Gambling tax					2,771,934	-	2,771,934
Hotel/motel lodging tax					691,797	-	691,797
Other taxes					1,140,426	-	1,140,426
Investment earnings					202,330	14,899	217,229
Miscellaneous					1,070,984	500	1,071,484
Transfers					<u>1,039,772</u>	<u>(1,039,772)</u>	<u>-</u>
Total general revenues, special items, and transfers					<u>30,965,804</u>	<u>(1,024,373)</u>	<u>29,941,431</u>
Change in net position					11,124,031	(1,317,257)	9,806,774
Net position - beginning					119,402,278	39,978,047	159,380,325
Net effect - change in accounting for pensions					2,457,415	-	2,457,415
Prior Period Adjustment					29,343	-	29,343
Adjusted net position - beginning					<u>121,889,036</u>	<u>39,978,047</u>	<u>161,867,083</u>
Net position - ending					<u>\$ 133,013,067</u>	<u>\$ 38,660,790</u>	<u>\$ 171,673,857</u>

The notes to financial statements are an integral part of this statement.

**City of Lakewood  
Balance Sheet  
Governmental Funds  
December 31, 2015**

	General Fund	CDBG Fund	LID Debt Service	Transportation Capital Fund	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	2,064,229	13,611	484,396	-	4,721,715	7,283,951
Investments	-	-	-	210,325	-	210,325
Prepaid Items	10,000	-	-	-	-	10,000
Customer accounts receivable	1,535,442	-	-	-	80,256	1,615,698
Due from other governments	172,636	63,200	-	4,180,659	734,848	5,151,343
Notes/contracts receivable	-	1,154,119	-	-	114,001	1,268,120
Special assessments receivable	-	-	1,372,590	-	159,130	1,531,720
Taxes receivable	3,735,958	-	-	61,565	428,881	4,226,404
Interfund loan receivable	1,782,474	-	-	-	-	1,782,474
Total assets	<u>\$ 9,300,739</u>	<u>\$ 1,230,930</u>	<u>\$ 1,856,986</u>	<u>\$ 4,452,549</u>	<u>\$ 6,238,831</u>	<u>\$ 23,080,035</u>
<b>LIABILITIES</b>						
Accounts payable	497,203	1,490	-	1,032,083	461,198	1,991,974
Payable to other governments	207,300	-	-	-	788	208,088
Custodial deposits	42,729	-	-	-	49,570	92,299
Unearned revenue	41,450	-	-	-	224,745	266,195
Contracts payable	-	-	-	1,040	-	1,040
Other Accrued Liabilities	1,145,837	8,053	-	62,196	55,888	1,271,974
Interfund loan payable	-	-	-	1,752,701	29,774	1,782,475
Other current liabilities	15,500	-	-	-	-	15,500
Total liabilities	<u>1,950,019</u>	<u>9,543</u>	<u>-</u>	<u>2,848,020</u>	<u>821,963</u>	<u>5,629,545</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Total liabilities and deferred inflows of resources	1,501,862	1,154,119	1,372,590	-	273,131	4,301,702
	<u>3,451,881</u>	<u>1,163,662</u>	<u>1,372,590</u>	<u>2,848,020</u>	<u>1,095,094</u>	<u>9,931,247</u>
<b>FUND BALANCES (DEFICITS)</b>						
Restricted	-	67,268	484,396	1,604,529	3,649,941	5,806,134
Committed	7,250	-	-	-	1,493,796	1,501,046
Assigned	-	-	-	-	-	-
Unassigned	5,841,608	-	-	-	-	5,841,608
Total fund balances (deficits)	<u>5,848,858</u>	<u>67,268</u>	<u>484,396</u>	<u>1,604,529</u>	<u>5,143,737</u>	<u>13,148,788</u>
Total liabilities, deferred inflows, and fund balances (deficits)	<u>\$ 9,300,739</u>	<u>\$ 1,230,930</u>	<u>\$ 1,856,986</u>	<u>\$ 4,452,549</u>	<u>\$ 6,238,831</u>	<u>\$ 23,080,035</u>

The notes to financial statements are an integral part of this statement.

**City of Lakewood**  
**Reconciliation of Balance Sheet to the Statement of Net Position**  
**December 31, 2015**

Fund balances of governmental funds		\$13,148,788
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds:		
Governmental Capital Assets (Net) Beginning of Year	110,238,610	
Plus: Capital Assets Additions	13,357,637	
Less: Reclassification of CIP	(1,048,884)	
Less: Depreciation Expense	(4,412,801)	
Less: Disposed Assets	(26,395)	
Plus: Accumulated Depreciation of Disposed Assets	18,494	
		118,126,662
Long-term liabilities applicable to the City's activities are not due and payable in the current period and are not reported as fund liabilities:		
Long Term Liabilities Outstanding Beginning of Year	(11,855,355)	
Plus: Debt Issued	(1,847,144)	
Less Debt Redeemed, including amortization	661,791	
Plus: Compensated Absences Issued	(2,560,192)	
Less: Compensated Absences Redeemed	2,519,286	
		(13,081,614)
Some revenue reported on the government-wide Statement of Activities is reported as deferred inflows of resources in the governmental funds:		
Property Tax	324,812	
Municipal Court	1,177,050	
Property Abatements	159,130	
HUD Loans	1,154,119	
Local Improvement Districts	1,372,590	
Public Works Trust Fund Loans	114,001	
		4,301,702
Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position		
Fleet & Equipment Fund Assets	6,602,767	
Property Management Fund Assets	647,700	
Information Technology Fund Assets	494,380	
Fleet & Equipment Fund Liabilities	(23,468)	
Property Management Fund Liabilities	(35,093)	
Information Technology Fund Liabilities	(137,107)	
Long term compensated absences	22,201	
		7,571,380
Long term assets and deferred inflows/outflows of resources related to pensions are included in governmental activities in the Statement of Net Position		
Net pension asset	3,500,512	
Deferred outflows of resources related to pensions	632,205	
Deferred inflows of resources related to pensions	(1,060,637)	
		3,072,080
Interfund revenues and expenditures are reported as internal balances in the government-wide statements to avoid overstating revenues and expenditures		
		(125,932)
		\$133,013,067

The notes to financial statements are an integral part of this statement.

**City of Lakewood**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
For the Year Ended December 31, 2015

	General Fund	CDBG Fund	LID Debt Service	Transportation Capital Fund	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes	\$ 25,902,342	\$ -	\$ -	\$ -	\$ 2,662,264	\$ 28,564,605
Special assessments	-	-	510,860	-	-	510,860
Licenses and permits	4,524,562	-	-	-	56,942	4,581,504
Intergovernmental	1,805,195	817,013	-	6,751,073	2,211,265	11,584,545
Charges for goods and services	1,759,830	-	-	328,485	1,121,070	3,209,385
Fines and penalties	1,557,435	-	-	-	-	1,557,435
Interest and other earnings	88,716	1,004	96,356	-	13,294	199,370
Miscellaneous	88,541	-	-	-	209,922	298,463
Contributions and donations	52,316	16,250	-	-	49,750	118,316
Total revenues	<u>35,778,937</u>	<u>834,267</u>	<u>607,216</u>	<u>7,079,558</u>	<u>6,324,505</u>	<u>50,624,482</u>
<b>EXPENDITURES</b>						
Current:						
General government	4,170,294	-	-	-	-	4,170,294
Public safety	21,702,072	-	-	222	418,366	22,120,660
Utilities	-	-	-	-	20,036	20,036
Transportation	144,261	-	-	525,200	2,175,846	2,845,307
Social services	585,277	-	-	-	-	585,277
Economic environment	2,073,124	626,266	-	-	988,342	3,687,732
Natural environment	298,364	-	-	-	-	298,364
Culture and recreation	1,737,185	-	-	-	51,150	1,788,335
Judicial	1,549,984	-	-	-	-	1,549,984
Debt service:						
Interest and other debt service costs	-	-	74,033	12,849	197,419	284,301
Principal retirement	-	-	49,838	-	596,562	646,400
Capital outlay:						
Capital	-	-	-	10,855,706	1,357,114	12,212,820
Total expenditures	<u>32,260,561</u>	<u>626,266</u>	<u>123,871</u>	<u>11,393,977</u>	<u>5,804,835</u>	<u>50,209,509</u>
Excess (deficiency) of revenues over expenditures	<u>3,518,376</u>	<u>208,001</u>	<u>483,345</u>	<u>(4,314,419)</u>	<u>519,670</u>	<u>414,972</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Long term debt proceeds	-	-	-	1,460,000	179,295	1,639,295
Premiums on bonds sold	-	-	-	207,849	-	207,849
Transfers in	325,502	-	-	4,096,874	2,264,090	6,686,466
Transfers out	(2,527,711)	(163,114)	-	-	(2,915,066)	(5,605,891)
Insurance recovery	-	-	-	-	2,288	2,288
Gain (loss) on disposal of capital assets	-	-	-	154,225	-	154,225
Total other financing source (uses)	<u>(2,202,209)</u>	<u>(163,114)</u>	<u>-</u>	<u>5,918,948</u>	<u>(469,393)</u>	<u>3,084,232</u>
Net change in fund balances	1,316,167	44,887	483,345	1,604,529	50,277	3,499,204
Fund balances - beginning	4,532,691	22,381	1,051	-	5,093,460	9,649,583
Fund balances - ending	<u>\$ 5,848,858</u>	<u>\$ 67,268</u>	<u>\$ 484,396</u>	<u>\$ 1,604,529</u>	<u>\$ 5,143,737</u>	<u>\$ 13,148,788</u>

The notes to financial statements are an integral part of this statement.

**City of Lakewood**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances to the Statement of Activities**  
For the Year Ended December 31, 2015

Net change in fund balances - total governmental funds \$3,499,204

Deferred inflows of resources reported in the funds are reported as revenue in the government-wide financial statements

	Prior year deferred inflows	(4,530,365)	
	Current year deferred inflows	<u>4,301,702</u>	
			(228,663)

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are capitalized and depreciated over the estimated useful lives of the the assets

	Capital asset purchases and construction in process capitalized	12,212,820	
	Gain/loss on disposal of capital assets	(59,178)	
	Donated capital asset	147,210	
	Depreciation expense	<u>(4,412,801)</u>	
			7,888,052

Expenses for compensated absences reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

	Prior year compensated absences	2,218,820	
	Current year compensated absences	(2,259,726)	
	Current year internal service compensate absences	<u>22,201</u>	
			(18,704)

The repayment of long term debt consumes the current financial resources of governmental funds. These transactions have no effect on net position.

	Bond principal retired	646,400	
	Bond premium amortized	15,391	
	Long term debt issued and premiums on bonds sold	<u>(1,847,144)</u>	
			(1,185,353)

Adjustment for GASB 68 pension reporting 614,665

Net revenue (loss) of internal service funds 572,303

Interfund revenues and expenditures are not reported on the Statement of Activities: (17,476)

\$11,124,031

The notes to financial statement are an integral part of this statement.

**City of Lakewood**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 25,202,000	\$ 25,281,200	\$ 25,902,342	\$ 621,142
Licenses and permits	4,188,800	4,370,800	4,524,562	153,762
Intergovernmental	1,726,780	1,753,238	1,805,195	51,957
Charges for goods and services	1,892,650	1,878,650	1,759,830	(118,820)
Fines and penalties	1,649,500	1,639,500	1,557,435	(82,065)
Interest and other earnings	78,000	78,000	88,716	10,716
Miscellaneous	42,006	42,003	88,541	46,538
Contributions and donations	43,000	48,000	52,316	4,316
Total revenues	<u>34,822,736</u>	<u>35,091,391</u>	<u>35,778,937</u>	<u>687,546</u>
<b>EXPENDITURES</b>				
Current:				
General government	5,752,780	4,389,396	4,170,294	(219,102)
Public safety	21,067,060	22,216,726	21,702,072	(514,654)
Transportation	391,820	221,524	144,261	(77,263)
Social services	592,510	592,510	585,277	(7,233)
Economic environment	2,001,370	2,371,192	2,073,124	(298,068)
Natural environment	308,360	308,360	298,364	(9,996)
Culture and recreation	1,631,470	1,825,710	1,737,185	(88,525)
Judicial	1,340,740	1,680,098	1,549,984	(130,114)
Debt service:				
Capital outlay:				
Total expenditures	<u>33,086,110</u>	<u>33,605,516</u>	<u>32,260,561</u>	<u>(1,344,955)</u>
Excess (deficiency) of revenues over expenditures	<u>1,736,626</u>	<u>1,485,875</u>	<u>3,518,376</u>	<u>2,032,501</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	284,700	325,502	325,502	-
Transfers out	(1,880,840)	(2,591,656)	(2,527,711)	63,945
Total other financing source (uses)	<u>(1,596,140)</u>	<u>(2,266,154)</u>	<u>(2,202,209)</u>	<u>63,945</u>
Net change in fund balances	140,486	(780,279)	1,316,167	2,096,446
Fund balances - beginning	4,034,368	4,532,692	4,532,691	(1)
Fund balances - ending	<u>\$ 4,174,854</u>	<u>\$ 3,752,413</u>	<u>\$ 5,848,858</u>	<u>\$ 2,096,445</u>

The notes to financial statements are an integral part of this statement.

**City of Lakewood**  
**CDBG Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual**  
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 500,000	\$ 2,173,052	\$ 817,013	\$ (1,356,040)
Interest and other earnings	-	1,245	1,004	(241)
Contributions and donations	-	10,000	16,250	6,250
Total revenues	<u>500,000</u>	<u>2,184,297</u>	<u>834,267</u>	<u>(1,350,031)</u>
<b>EXPENDITURES</b>				
Current:				
Economic environment	535,000	1,594,828	626,266	(968,562)
Total expenditures	<u>535,000</u>	<u>1,594,828</u>	<u>626,266</u>	<u>(968,562)</u>
Excess (deficiency) of revenues over expenditures	<u>(35,000)</u>	<u>589,469</u>	<u>208,001</u>	<u>(381,469)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	35,000	-	-	-
Transfers out	-	(600,312)	(163,114)	437,198
Total other financing source (uses)	<u>35,000</u>	<u>(600,312)</u>	<u>(163,114)</u>	<u>437,198</u>
Net change in fund balances	-	(10,843)	44,887	55,730
Fund balances - beginning	1,212	22,381	22,381	-
Fund balances - ending	<u>\$ 1,212</u>	<u>\$ 11,538</u>	<u>\$ 67,268</u>	<u>\$ 55,730</u>

The notes to financial statements are an integral part of this statement.

**City of Lakewood**  
**Statement of Net Position**  
**Proprietary Funds**  
December 31, 2015

	Business-type Activities	Governmental Activities
	Surface Water Management	Internal Service Funds
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,873,719	\$ 4,331,501
Investments	1,000,101	-
Accounts receivable	-	-
Due from other governments	173,495	-
Taxes Receivable	17,790	-
Total current assets	6,065,105	4,331,501
Noncurrent assets:		
Land	1,854,448	278
Construction in Progress	255,341	55,713
Buildings	1,849,674	-
Infrastructure	42,594,204	-
Improvements other than buildings	-	137,278
Machinery and equipment	332,332	7,051,551
Less accumulated depreciation	(14,152,590)	(3,831,474)
Total noncurrent assets	32,733,409	3,413,346
Total assets	38,798,514	7,744,847
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	128,539	85,912
Payable to other governments	-	446
Custodial deposits	400	-
Other Accrued Liabilities	41,073	29,814
Total current liabilities	170,012	116,172
Noncurrent liabilities:		
Compensated absences	93,644	22,201
Capital lease liability	-	57,295
Total noncurrent liabilities	93,644	79,496
Total liabilities	263,656	195,668
<b>NET POSITION</b>		
Net investment in capital assets	32,733,409	3,356,051
Unrestricted	5,801,449	4,193,128
Total net position	\$ 38,534,858	\$ 7,549,179
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	125,932	
Net position of business-type activities	\$ 38,660,790	

The notes to financial statements are an integral part of this statement.

**City of Lakewood**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
For the Year Ended December 31, 2015

	Business-type Activities	Governmental Activities
	Surface Water Management	Internal Service Funds
<b>OPERATING REVENUES</b>		
Charges for goods and services	\$ 2,740,257	\$ 4,700,445
Miscellaneous	500	77,437
Total operating revenues	2,740,757	4,777,882
<b>OPERATING EXPENSES</b>		
Personal Services	664,676	586,077
Materials and supplies	41,658	464,995
Services and charges	1,036,895	2,589,108
Intergovernmental	120,032	1,022
Insurance and claims	-	-
External and interfund taxes	176,503	-
Depreciation	1,221,550	603,397
Total operating expenses	3,261,314	4,244,599
Operating income (loss)	(520,557)	533,283
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gain (loss) on disposal of capital assets	-	64,745
Investment earnings	14,782	3,077
Capital Outlay	-	-
Total nonoperating revenues (expenses)	14,782	67,822
Income (loss) before contributions and transfers	(505,775)	601,105
Capital contributions	210,814	12,000
Transfers in	268,989	110,050
Transfers out	(1,308,761)	(150,852)
Change in net position	(1,334,733)	572,303
Total net position - beginning	39,869,591	6,890,320
Prior period adjustment	-	86,556
Total net position - ending	\$ 38,534,858	\$ 7,549,179
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	17,476	
Changes in net position of business-type activities	\$ (1,317,257)	

The notes to financial statements are an integral part of this statement.

**City of Lakewood**  
**Statement of Cash Flows**  
**Proprietary Funds**  
For the Year Ended December 31, 2015

	Business-type Activities Enterprise Funds	Governmental Activities
	Surface Water Management	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	\$ 2,740,259	\$ -
Cash from interdepartmental services	-	4,700,445
Cash paid to employees	(687,314)	(534,046)
Cash paid to suppliers	(1,450,804)	(3,008,624)
Cash paid for external and interfund taxes	(176,503)	-
Other operating receipts	500	77,437
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	426,138	1,235,212
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from other funds	-	110,050
Transfers to other funds	(1,039,772)	(150,852)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	(1,039,772)	(40,802)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from sale of capital assets	-	64,745
Capital Contributions/Grants	343,674	-
Acquisition and construction of capital assets	(953,610)	(1,512,703)
NET CASH USED FOR CAPITAL AND CAPITAL-RELATED FINANCING ACTIVITIES	(609,936)	(1,447,958)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	1,239,606	1,244,883
Purchase of investments	-	-
Interest income	20,667	3,077
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	1,260,273	1,247,960
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	36,703	994,412
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,837,016	3,337,089
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,873,719	\$ 4,331,501
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating Income	\$ (520,557)	\$ 533,283
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,221,550	603,397
Changes in assets and liabilities:		
Accounts Payable - Supplier	(181,630)	53,148
Payable to other governments	(48,752)	16
Salaries & Benefits Payable	(22,638)	45,368
Custodial Deposits	(21,835)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 426,138	\$ 1,235,212

The notes to financial statements are an integral part of this statement.

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Lakewood have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

**REPORTING ENTITY**

The City's Comprehensive Annual Financial Report (CAFR) includes the funds, agencies and boards controlled by or dependent upon the City. In conformance with Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, the primary basis of determining whether outside agencies and organizations should be considered component units of the City is financial accountability. Financial accountability is dependent on the City's obligation to redeem the organization's debts, to finance the organization's deficits, and the extent to which subsidies from the City constitute a major portion of the organization's total resources. The City's Comprehensive Annual Financial Report (CAFR) includes the financial statements for the City of Lakewood and its one blended component unit, the Lakewood Transportation Benefit District. Although legally separate entities, blended component units are, in substance, part of the City's operations. (See Note 14 for further information.)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to allocate indirect costs to specific functions or segments. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grant and contributions that are restricted to meeting the operational or capital requirements, or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the City's one major individual enterprise fund are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, and FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City of Lakewood considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, utility taxes, licenses, franchise fees, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

### Proprietary Funds:

Proprietary funds are used to account for activities similar to those found in the private sector where the intent of the governing body is to finance the full cost of providing services, including depreciation, primarily through user charges. The measurement focus for these funds is based on the commercial model, which uses a flow of economic resources approach. Under this approach, the operating statements for the proprietary funds focus on a measurement of net income (revenues and expenses) and both current and non-current assets and liabilities are reported on the related balance sheets.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's Surface Water Management Fund and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported to the various functions concerned.

Amounts reported as program revenue include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are primarily user charges, the cost of providing goods or services to the general public on a continuing basis. Operating expenses for enterprise funds and internal service funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## MAJOR FUNDS

### Major Governmental Funds:

The **General Fund** is the City's operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund. These include the costs of legislative and executive departments, municipal court services, finance and information technology departments, legal department, community development services, human resources; parks, recreation, and human services; economic development, police and animal control. Major sources of revenue reported for the General Fund include property, sales and use, and utility taxes, as well as franchise fees.

The **Transportation Capital Projects Fund** accounts for capital projects related to street infrastructure. Revenue and other resources reported for the Transportation Capital Projects Fund include real estate excise taxes, direct and indirect federal

grants, state grants, motor vehicle fuel taxes and transfers in from the Transportation Benefit District \$20 vehicle license fee.

The **CDBG Fund** was established to account for revenues and expenditures associated with Community Development Block Grants (CDBG), and HOME Investment Partnership Act grants. Revenue and other resources reported in the CDBG Fund include direct and indirect federal grants and local donations and contributions.

The **LID Debt Service Fund** was established to account for both the payment of special assessment bonds, as well as the collection of assessments from property owners within the local improvement district (LID). The assessment payments are the revenue source for the debt payments.

### **Major Proprietary Fund:**

The **Surface Water Management Fund** accounts for activities that provide storm water collection and disposal services to the City. Activities include administration, engineering, construction, operation, maintenance, and repairs, which are primarily supported by user fees. The fees are billed along with Pierce County's semi-annual property taxes, and remitted by the County to the City.

### **NON-MAJOR FUNDS**

#### **Special Revenue Funds:**

These funds are used to account for proceeds of revenues and sources (other than special assessments, expendable trust, or major capital projects) that are committed or legally restricted to expenditures for specified purposes.

The **Street Operations and Maintenance Fund** is used to account for the receipts and disbursements associated with City planning, establishing, repairing and maintaining City streets, sidewalks, and appurtenances, including pedestrian and bicycle paths, lanes and routes. The fund is supported primarily by an interfund transfer from the General Fund, motor vehicle fuel tax, and permits to a much lesser degree. Primary areas of service are transportation planning, traffic operations and maintenance, neighborhood traffic services, snow and ice response, and street maintenance.

The **Real Estate Excise Tax Fund** is used to account for the receipt and disbursement of the first and second 0.25 percent real estate excise tax and other revenue sources that may be authorized by the City Council. The first 0.25 percent real estate excise tax is authorized by RCW 82.46.010, and dedicated for the capital purposes defined in RCW 35.43.040. Such expenditures include public buildings and facilities, parks, and debt service associated with such capital-oriented projects. The second 0.25 percent real estate tax authorized by the Growth Management Act RCW 82.46.035. These revenues are restricted to financing capital projects specified in a capital facilities plan.

The **Transportation Benefit District Fund** is used to account for the annual \$20 vehicle license fee (VLF) revenues used to fund specific transportation projects. Proceeds from the VLF are transferred to Fund 302 Transportation Capital Projects to provide funding of those specific projects.

The **Hotel/Motel Lodging Tax Fund** is used to account for the hotel/motel lodging tax revenues and associated disbursements. RCW 67.28 authorizes a transient rental tax of up to two percent for lodging at hotels, motels, private campgrounds, RV parks and similar facilities. RCW 67.28 also authorizes a five percent special hotel/motel tax on the same base. The expenditures from this fund must adhere to the governing state statutes, which limit the expenditures to those costs related to tourism promotion, and acquisition and/or operation of tourism-related facilities.

The **Property Abatement Fund** accounts for projects that the City has identified and processed through the abatement program. All revenues from the rightful recovery of those project expenses, along with all revenues from fees, fines, and interest, and other rightful recoveries from those projects are deposited into the fund for the purpose of funding additional abatement projects.

The sole purpose of the **Public Art Fund** is to account for the revenue from the fees charged for the rental of the McGavick Center by the City and expenditure of that revenue for approved public art activities.

The **Narcotics Seizure Fund** was established for the purposes of tracking assets seized as a result of involvement with the illegal sale, possession, or distribution of drugs or controlled substances, and for the purchase of controlled substances or

drugs by law enforcement officers or agents, as well as for such other expenses the City determines to be reasonably connected with public safety activity.

The ***Felony Seizure Fund*** accounts for assets seized by the police department under RCW 10.105.101 and the related expenditures. The statute authorizes the seizure of assets that have been or was actually employed as an instrumentality in the commission of, or in aiding or abetting in the commission of any felony, or which was furnished or was intended to be furnished by any person in the commission of, as a result of, or as compensation for the commission of, any felony, or which was acquired in whole or in part with proceeds traceable to the commission of a felony.

The ***Federal Seizure Fund*** was established to track the revenues associated with assets seized as a result of the police department working in conjunction with federal law enforcement. The fund also accounts for public safety expenditures funded by those revenues.

The ***Neighborhood Stabilization Program Fund*** accounts for the revenues and expenditures associated with the Federal Neighborhood Stabilization Program Grant. The NSP was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. The NSP1 program provides funds to purchase and redevelop foreclosed and abandoned homes and residential properties. NSP 3 program provides a third round of neighborhood stabilization grants to all states and select governments on a formula basis.

The ***Office of Economic Adjustment (OEA) Grant /South Sound Military Communities Partnership (SSMCP) Fund*** accounts for the revenues and expenditures associated with the Federal Office of Economic Adjustment Grant Program, which provides grants to assist communities with the alleviation of socioeconomic effects that may result from military base closures and realignments. This fund also accounts for all activity associated with the South Sound Military Communities Partnership.

The ***Public Safety Grant Fund*** accounts for the revenues and expenditures related to police department grants and local revenues.

#### **Debt Service Funds:**

The ***General Obligation Debt Service Fund*** accounts for General Obligation Bonds for the construction of 59<sup>th</sup> Street and the Lakewood Police Station. In 2015, the City entered into a Local Agency Financing Contract with the Office of the State Treasurer. Using the State of Washington LOCAL (Local Option Capital Asset Lending) Program, the City secured financing for the LED Streetlight Retrofit program to convert 1,982 streetlights to energy efficient LEDs.

The ***Sewer Project Debt Service Fund*** accounts for the Public Works Trust Fund Loans that the City secured to fund both sewer main construction and the side sewer construction loan program

The ***LID Guaranty Debt Service Fund*** was created in conjunction with establishing the permanent financing of CLID 1101-1103. It also accounts for the guaranty funds connected with LID 1108.

#### **Capital Projects Funds:**

The ***Parks Capital Project Fund*** accounts for the receipt and disbursements related to the acquisition or construction of major parks capital improvement projects.

The ***Sewer Capital Project Fund*** accounts for the construction of a sewer system, which was donated to Pierce County. Only minor sewer construction-related activity has taken place in the fund for 2014 and 2015.

The ***Sanitary Sewer Connection Capital Project Fund*** accounts for the revenues generated from the sewer availability charges (in conjunction with the new sewer main that was donated to Pierce County), expenditures and transfers that are legally allowable for sewer availability charge fees, and for administrative expenses to maintain and operate the fund.

## OTHER FUND TYPES

### Internal Service Funds:

The City uses internal service funds to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

A description of each individual internal service fund included in the Comprehensive Annual Financial Report is provided below:

The **Fleet and Equipment Fund** accounts for all costs associated with operating, maintaining and replacing the City's vehicles and other motorized equipment. This fund owns and depreciates all non-proprietary fund assets of this nature. Rates charged to user departments are based on the full cost of maintaining fleet and equipment, including the recovery of related depreciation expense.

The **Property Management Fund** accounts for all costs associated with the maintenance and operations of City Hall, Police Station, and Parking/Light Rail Facility. Maintenance and operating costs are charged to this fund which is funded primarily through user charges allocated to the operating funds. The fund has also accumulated replacement reserves for the purpose of funding future major repairs and capital improvements to city-owned facilities.

The **Information Technology Fund** accounts for all costs and services associated with the City's information technology needs. This fund is used to support all internal systems such as the City's geographical information system needs, internal and external web resources, email systems, business continuity needs, infrastructure resources, applications and overall support. This fund owns and depreciates all non-proprietary fund assets related to these functions. Information technology costs are allocated to the operating funds.

The **Risk Management Fund** accounts for the financial administration of the City's comprehensive risk management program. The fund assures that the revenues and assets of the City are protected through an established risk control and risk finance program including risk management goals and objectives, a formalized risk assessment process and methodology for reviewing and monitoring of the effectiveness of the risk management program. This fund is funded primarily through user charges allocated to the operating funds.

### Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements.

The **accrual basis** of accounting is used by proprietary funds. Under this method, revenues are recognized when earned, and expenses are recognized when incurred.

The **modified accrual** basis of accounting is used by governmental funds. Revenues and other financial resources are recognized when they become susceptible to accrual, i.e., when the related funds become both measurable and available to finance expenditures of the current period. To be considered "available", revenue must be collected during the current period or soon enough thereafter to pay current liabilities. The City uses thirty days when evaluating the available criteria.

Expenditures are recognized when the related fund liability is incurred. Since the recognition of depreciation does not reduce net financial resources, it is not considered as expenditure. Other exceptions include (1) inventories of materials and prepaid items are reported as expenditures when purchased, (2) interest on long-term debt is not accrued but is recorded as an expenditure when due, (3) accumulated unpaid vacation and sick pay are considered expenditures when paid.

Major revenues recorded on the modified accrual basis are:

**Property Taxes** - Pierce County acts as the City's collection agent for these taxes. Each month, the County electronically transmits to the City the taxes which it has collected on the City's behalf in the prior month. On this basis, property taxes received in January and February are considered both measurable and available and are therefore recognized as revenue in the current year.

**Other Locally Levied Taxes** - Pierce County also acts as the City's collection agent for the ¼% and optional ¼% real estate excise taxes. Although a time lag occurs in payment of these taxes to the City, since the taxes are actually collected by Pierce County in December and receipted to the City within 10 days after the end of the year, they are considered to be both measurable and available, and are, therefore, accrued as revenue at year end. The State of Washington acts as the City's collection agency for the locally levied sales tax. The sales tax is distributed monthly and remitted to the City in the following month. The Sales Tax remittance in January and February are considered both measurable and available and is therefore accrued as revenue at year-end.

**Grant Revenues** - Under Section G60.109 of the Codification of Governmental Accounting and Financial Reporting Standards, revenues for cost reimbursement grants are determined to be earned and, therefore, available at the time related expenditures are incurred. For this reason, grant revenues to be received as reimbursement for expenditures incurred in the current year are also recognized as revenue in that year.

**Shared Revenues** - Revenues that have been collected, but not remitted by an intermediary collection agency to the City, are considered measurable and available.

**Other Revenue Sources** - Other items recognized as revenue in the current year on the modified accrual basis include investment interest earned but not received at year end; inter-fund and intergovernmental service billings related to services provided in the current year which are outstanding at year-end, and any other material revenue amounts determined to be both measurable and available under current modified accrual accounting practices.

### **Financial Statement Presentation**

In order to obtain an understanding of changes in the City's position and the results of the City's operations, the financial statements for the year ended December 31, 2015 should be read in conjunction with the government's financial statements for the year ended December 31, 2014.

## **BUDGETARY INFORMATION**

### **Scope of Budget**

Annual appropriated budgets are adopted, on a biennial basis, for the general, special revenue, and capital project funds on the modified accrual basis of accounting. For governmental funds, both budget and actual information is presented on a GAAP basis of accounting. Budgetary accounts are integrated in fund ledgers for all budgeted funds, but the financial statements include budgetary comparisons for the general fund, major special revenue funds, debt service funds, and CIP funds only.

Budgets for debt service funds are adopted at the level of the individual debt issue and for fiscal periods that correspond to the lives of debt issue.

Annual appropriated budgets are adopted at the fund level, and the budgets constitute the legal authority for expenditures at that level. Total fund appropriation includes expenditures, other financing uses, and estimated ending fund balance. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures.

At the fund level, actual expenditures cannot exceed budgeted appropriations. Appropriations for general and special revenue funds lapse at year-end. The budgeted financial statements represented in this report reflect the final budget authorization, including all amendments.

### **Amending the Budget**

The City Manager is authorized to transfer budgeted amounts between departments within the same fund; however, any revisions that alter the total expenditures of a fund, or that affect salary ranges, hours, or other conditions of employment must be approved by the City Council.

When the City Council determines that it is in the best interest of the City to increase or decrease the appropriation for a particular fund, it may do so by ordinance approved by one more than the majority after holding public hearing(s). The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

## **ASSETS, LIABILITIES, FUND BALANCE, AND NET POSITION**

### **Cash and Investments**

It is the City's policy to invest all temporary cash surpluses. At December 31, 2015, the City had \$16,489,171 in short-term residual investments of surplus cash. This amount is classified on the Statement of Net Position as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds on the basis of the ending cash balance in each participating fund.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The City's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (WPDPC).

The City is authorized by State law to purchase certificates of deposit issued by Washington State depositories that participate in a state insurance pool managed by the Washington Public Deposit Protection Commission; securities purchased by the Washington State Investment Pool; U.S. Treasury and Agency securities, banker's acceptances trading in the secondary market; and repurchase agreements with dealers that use authorized securities as collateral. In accordance with GASB 31, investments in money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value. There was no material deviation from fair value quoted at year-end.

### **Receivables**

Receivables include taxes receivable, accounts receivable, interest receivable, notes receivable and grants receivable. Taxes receivable consist of property taxes receivable. (See Note 5)

Accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which the City is not required to bill. Notes receivable include amounts owed from private individuals for money loaned to provide assistance in paying for side sewer connection costs. Public works trust fund loan proceeds were the funding source for the loans made.

Also included in General Fund receivables are amounts due in connection with municipal court fines, fees, and penalties. The Washington State Administrative Office of the Courts (AOC) provides the primary information system for many courts in the state of Washington through its Judicial Information System (JIS). The City of Lakewood utilizes JIS for tracking all court revenues, and followed the AOC-recommended methodology for determining the amount of current local receivables, as well as for estimating future collections related to current local receivables.

Accrued interest receivable consists of amounts earned on investments and notes at the end of the year.

Grants Receivable consists of amounts owed from governmental or other third parties. Special Assessments are recorded when levied. Special assessments receivable consist of current and delinquent assessments and related interest and penalties. Deferred assessments on the fund financial statements consist of unbilled special assessments that are liens against the property benefited. As of December 31, 2015, no amount of special assessments receivable were delinquent.

Uncollected amounts are considered immaterial and the direct write-off method is used when applicable.

### **Amounts Due to and from Other Funds and Governments, Interfund Loans, and Accounts Receivable**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either interfund loans receivable/payable or advances to/from other funds. All other outstanding balances between funds are reported as due to/from other funds.

## Inventories

Inventories in the governmental funds are recorded as expenditures at the time of purchase. Amounts remaining at year-end are immaterial and, therefore, are not reflected on the balance sheets of those funds. There were no material inventories at year-end in the Internal Service or Enterprise Funds.

## Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost equal to or greater than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Land and construction in progress are not depreciated. Infrastructure acquired in fiscal years ending prior to June 30, 2004 is reported.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset.

The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are recorded in Construction in Progress as they are constructed, and capitalized upon completion.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & improvements	25 – 75
Improvements other than buildings	10 – 20
Public domain infrastructure	10 – 50
Vehicles	3 – 10
Equipment	3 – 10

## Compensated Absences

The City records a liability for all outstanding vacation pay and accrued compensatory time. In governmental funds, vacation pay, personal time off, and compensatory time is recorded as expenditures when paid, which occurs when used or upon termination. In the entity-wide statements and the proprietary fund statements, vacation pay and compensatory time is recorded as a liability and expense in the year earned.

City employees who are non-represented accumulate combination leave and major medical leave. Upon termination or retirement, the employees in this group who have less than three years of service with the City receive 75% of his or her combination leave at the current rate of pay. Employees with three or more years of service receive 100% of their combination leave at their current rate of pay. Those individuals who are of retirement age upon separation or who are laid off from the City receive 25% of their major medical leave at their current rate of pay, with a maximum of 160 hours to be paid out.

The Teamsters Union members receive one type of leave, Paid Time Off (PTO), and are paid 57.5% of their leave balance at their current rate of pay upon separation.

The Lakewood Police Independent Guild members receive one type of leave, PTO, and are paid 65% of their leave balance at their current rate of pay upon separation.

The Lakewood Police Management Guild (LPMG), receive one type of leave, PTO, and are paid 57.5% of their leave balance at their current rate of pay upon separation.

City employees who are members of the Associate of Federal, State, County, and Municipal Employees (AFSCME) union also accumulate PTO, and upon separation receive 57.5% of their PTO (65% if laid off) at their current rate of pay.

## **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the Washington State Department of Retirement Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

## **Long-term Liabilities**

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Long-term debt outstanding at year-end is outlined in Note 10.

## **Deferred Outflows/Inflows of Resources**

The deferred inflow of resources account is used to offset receivables established in the governmental funds for certain revenues that are measurable but not considered available to finance payment of current obligations and, therefore, are not susceptible to accrual on the modified accrual basis. When the receivable amounts are collected in future periods, this liability account is reduced and corresponding revenue is recorded. The portions of Property Taxes that do not meet the available criteria are recorded as deferred inflow of resources. (See Note 5)

## **Fund Balance Classification**

Fund balance is a measurement of available financial resources and is the difference between total assets and total liabilities in each fund.

Beginning with the most restrictive constraints, fund balance amounts will be reported in the following categories:

*Nonspendable* – amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

*Restricted* – amounts that can be spent only for the specific purposes stipulated by external parties either constitutionally or through enabling legislation.

*Committed* – amounts that can be used only for the specific purposes determined by formal action of the City Council. Commitments may be changed or lifted by referring to the formal action that imposed the constraint originally.

*Assigned* – amounts *intended* to be used by the government for specific purposes. Intent is expressed by the governing body (City Council) or a body or official to which the City has delegated the authority to assign amounts to be used for specific purposes (City Manager). In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other government funds, at a minimum, are intended to be used for the purpose of that fund.

*Unassigned* – includes all amounts not contained in other classifications and is the residual classification of the general fund only. Unassigned amounts are available for any legal purpose.

The responsibility for designating funds to specific classifications shall be as follows:

*Committed Fund Balance* – The City Council is the highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is established by ordinance approved by the Council.

When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category of available funds.

In September 2014, the City Council adopted set of financial policies. The fund balance policy requires the General Fund ending fund balance reserves at 12% of the combined General and Street Operations & Maintenance Funds operating revenues. The timeline to achieve the target reserves is no later than December 31, 2016. The 12% ending fund balance reserves equates to \$4.4 million and is achieved at the end of 2015. The 12% fund balance is comprised of:

- *2% General Fund Contingency Reserves:* The purpose of this reserve is to accommodate unexpected operational changes, legislative impacts, or other economic events affecting the City’s operations which could not have been reasonably anticipated at the time the original budget was prepared. The City Council will determine how the Contingency Reserves are spent.
- *5% General Fund Ending Fund Balance Reserves:* The purpose of this reserve is to provide financial stability, cash flow for operations and the assurance that the City will be able to respond to revenue shortfalls with fiscal strength.
- *5% Strategic Reserves:* The purpose of this reserve is to provide some fiscal means for the City to respond to potential adversities such as public emergencies, natural disasters or similarly major, unanticipated events.

**Fund Balance Details**

2015 Fund Balance Classification						
Fund Balance	General Fund	Grant Fund	LID Debt Service	Transporation CIP	Nonmajor Governmental	Total
<b>Restricted for:</b>						<b>5,806,134</b>
Transportation CIP	-	-	-	1,604,529	-	1,604,529
Real Estate Excise Tax	-	-	-	-	476,554	476,554
Local Improvement District-related debt	-	-	484,396	-	-	484,396
Hotel/Motel Lodging Tax	-	-	-	-	1,273,140	1,273,140
Police Seizure	-	-	-	-	688,431	688,431
Neighborhood Stabilization Program Grant	-	-	-	-	152,875	152,875
Office of Economic Adjustment Grant	-	-	-	-	47,504	47,504
Public Works Trust Fund Debt	-	-	-	-	616,937	616,937
LID Guaranty	-	-	-	-	394,500	394,500
CDBG Fund	-	67,268	-	-	-	67,268
<b>Committed to:</b>						<b>1,501,046</b>
Petty Cash	7,250	-	-	-	-	7,250
Property Abatement	-	-	-	-	149,331	149,331
Public Art	-	-	-	-	34,075	34,075
Parks CIP	-	-	-	-	87,106	87,106
Sanitary Sewer CIP	-	-	-	-	309,802	309,802
Sanitary Sewer Connection	-	-	-	-	913,482	913,482
<b>Unassigned:</b>						<b>5,841,608</b>
General Fund	5,841,608	-	-	-	-	5,841,608
<b>Total Fund Balance:</b>	<b>5,848,858</b>	<b>67,268</b>	<b>484,396</b>	<b>1,604,529</b>	<b>5,143,737</b>	<b>13,148,788</b>

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS**

**Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position**

The governmental funds’ balance sheet includes reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position. The details of this \$119.9 million difference are as follows.

Capital assets used in governmental activities are not financial resources and are therefore reported at the government-wide level but not at the fund level:

Governmental Capital Assets (Net) Beginning of Year	\$ 110,238,610
Plus: Capital Assets Additions	13,357,637
Less: Reclassification of CIP	(1,048,884)
Less: Depreciation Expense	(4,412,801)
Less: Disposed Assets	(26,395)
Plus: Accumulated Depreciation of Disposed Assets	18,494
	<u>\$ 118,126,662</u>

Long-term liabilities applicable to the City's activities are not due and payable in the current period and are not reported as fund liabilities:

Long Term Liabilities Outstanding Beginning of Year	\$ (11,855,355)
Plus: Debt Issued	(1,847,144)
Less Debt Redeemed, including amortization	661,791
Plus: Compensated Absences Issued	(2,560,192)
Less: Compensated Absences Redeemed	2,519,286
	<u>\$ (13,081,614)</u>

Some deferred inflows reported in the governmental funds are reported as revenues on the government-wide Statement of Activities:

Property Tax	\$ 324,812
Municipal Court	1,177,050
Property Abatements	159,130
HUD Loans	1,154,119
Local Improvement Districts	1,372,590
Public Works Trust Fund Loans	114,001
	<u>\$ 4,301,702</u>

Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position:

Fleet & Equipment Fund Assets	\$ 6,602,767
Property Management Fund Assets	647,700
Information Technology Fund Assets	494,380
Fleet & Equipment Fund Liabilities	(23,468)
Property Management Fund Liabilities	(35,093)
Information Technology Fund Liabilities	(137,107)
Long term compensated absences	22,201
	<u>\$ 7,571,380</u>

Long-term assets and deferred inflows/outflows of resources related to pensions are included in governmental activities in the Statement of Net Position:

Net pension asset	\$ 3,500,512
Deferred outflows of resources related to pensions	632,205
Deferred inflows of resources related to pensions	(1,060,637)
	<u>\$ 3,072,080</u>

Interfund revenues and expenditures are reported as internal balances on the government-wide statements to avoid overstating revenues and expenditures:

Interfund Balances	<u>\$ (125,932)</u>
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**Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental funds' statement of revenues, expenditure, and changes in fund balances includes reconciliation between *Net Changes in Fund Balances – Total Governmental Funds* and *Changes in Net Position of Governmental Activities* as reported in the Government-wide Statement of Activities. The details of the \$7.6 million difference are as follows.

Some deferred inflows reported in the funds are recognized as revenue in the government-wide financial statements:

Prior year deferred inflows recognized as revenue	\$ (4,530,365)
Current year deferred inflows recognized as revenue	4,301,702
	<u>\$ (228,663)</u>

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets are capitalized and depreciated over the estimated useful lives of the assets:

Capital asset purchases and construction in process capitalized	\$ 12,212,820
Gain/loss on disposal of capital assets	(59,178)
Donated capital asset	147,210
Depreciation expense	(4,412,801)
	<u>\$ 7,888,051</u>

Expenses for compensated absences reported in the Statement of Activities do not require the use of current financial resources and are therefore not reported as expenditures in the governmental funds:

Prior year compensated absences	\$ 2,218,820
Current year compensated absences	(2,259,726)
Current year internal service compensate absences	22,201
	<u>\$ (18,705)</u>

The repayment of long-term debt consumes the current financial resources of governmental funds, but these transactions have no effect on government-wide net position:

Bond principal retired	\$ 646,400
Bond premium amortized	15,391
Long term debt issued and premiums on bonds sold	(1,847,144)
	<u>\$ (1,185,353)</u>

Adjustment for GASB 68 pension reporting:

Adjustment for GASB 68 pension reporting	\$ 614,665
	<u>\$ 614,665</u>

Net revenue (loss) of internal service funds:

Net revenue (loss) of internal service funds	\$ 572,303
	<u>\$ 572,303</u>

Interfund revenues and expenditures are not reported on the Statement of Activities:

Interfund balances	<u>\$ (17,476)</u>
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**NOTE 3– SUPPLEMENTAL APPROPRIATIONS**

**Operating Budget Funds**

Appropriations established during 2015 are provided below. As explained in Note 1, both original and supplemental appropriations are adopted by the City Council by ordinance. Both original and final budget appropriations are shown on the accompanying financial statements. The final budget values include all adopted adjustments to original budget amounts.

Fund Balance	2015		
	Original Budget	Supplemental Appropriations	Final Budget
<i>General Fund</i>	\$ 34,966,947	\$ 1,230,225	\$ 36,197,172
<i>Special Revenue Funds:</i>			
Street Operations & Maintenance	1,893,850	316,511	2,210,361
Real Estate Excise Tax	2,447,206	(198,524)	2,248,682
Transportation Benefit District	572,000	-	572,000
Hotel/Motel Lodging Tax	500,000	(48,150)	451,850
Property Abatement	100,000	210,471	310,471
Public Art	2,000	-	2,000
Narcotics Seizure	318,550	14,563	333,113
Felony Seizure	-	5,044	5,044
Federal Seizure	10,000	100,000	110,000
Grant	535,000	1,660,140	2,195,140
NSP Grant	-	171,277	171,277
OEA Grant	179,500	257,596	437,096
Public Safety Grant	149,810	95,900	245,710
<i>Debt Service Funds:</i>			
General Government Debt Service	289,183	51,476	340,659
LID Debt Service	279,319	319,541	598,860
Sewer Project Debt	726,146	-	726,146
LID Guaranty	-	-	-
<i>Capital Projects Funds:</i>			
General Government CIP	60,000	582,607	642,607
Transportation CIP	13,772,500	1,074,655	14,847,155
Sewer Project CIP	1,520,000	-	1,520,000
Sanitary Sewer Connection	-	35,000	35,000
<b>Total Fund Balance:</b>	<b>\$ 58,322,011</b>	<b>\$ 5,878,332</b>	<b>\$ 64,200,343</b>

**NOTE 4 – DEPOSITS AND INVESTMENTS**

As required by state law, all deposits and investments of the City's funds are obligations of the U.S. Government, the Local Government Investment Pool (LGIP), bankers' acceptances, or deposits with Washington State banks and savings and loan institutions. In 2015 the City utilized obligations of the U.S. Government, the Local Government Investment Pool and Washington state banks as legal authorized investment instruments.

**Cash and Deposits**

At year-end, the City had \$16,489,171 in cash and cash equivalents. Custodial credit risk for these deposits is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. However, the City's deposits are covered up to \$250,000 through federal depository insurance and through the Washington Public Deposit Protection Commission (WPDPD), a multiple financial institution collateral pool, for amounts over \$250,000. Under Washington State statutes, members of the WPDPD may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss.

The State Treasurer's Office administers the Washington State LGIP authorized under Chapter 43.250 RCW. The LGIP operates in a manner consistent with the SEC Rule 2a-7. In its management of LGIP, the State Treasurer adheres to the

principles appropriate for the prudent investment of public funds. In priority order, they are the safety of principal, the assurance of sufficient liquidity and the assurance of sufficient liquidity to meet cash flow demands.

As of December 31, 2015, the City had the following investments and maturities:

Investment Maturities				
Investment	< 1 Year	1 - 3 Years	> 3 Years	Total
Federal National Mortgage Association	\$ 1,000,101	\$ -	\$ -	\$ 1,000,101
Local Government Investment Pool	13,834,803	-	-	13,834,803
<b>Total:</b>	<b>\$ 14,834,904</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,834,904</b>

*Investments above do not include \$210,325 that is from LOCAL financing.*

## Investments

### Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City’s investment policy states: The City will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds in primarily short-term securities, money market mutual funds or similar investment pools.

### Credit Risk

Credit risk is the risk that an issuer or other counter-party has to an investment in not fulfilling its obligations. The City’s investment policy states that the City will minimize credit risk by limiting investments to the safest type of securities; prequalifying the financial institutions and brokers/dealers with which the City will do business; and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

State law and the City’s investment policy limits the instruments in which the City may invest. The following are categories of investments authorized under the City’s policy, in general order of safety and liquidity: Local Government Investment Pool (LGIP); repurchase agreements; U.S. treasury obligations; U.S. government agencies; U.S. government-sponsored corporations/instrumentalities; bankers’ acceptances (secondary market domestic and foreign); commercial paper (secondary market); insured certificates of deposit (banks and savings & loans); and uninsured/collateralized certificates of deposit (banks and savings & loans).

The credit risk of the State Investment Pool is limited to obligations of the US Government, government sponsored enterprises, or insured demand deposit accounts and certificates of deposit.

As of December 31, 2015, the City had \$13,834,803 in the LGIP. The LGIP is unrated. LGIP is comparable to Securities Exchange Commission 2a-7 to minimize credit risk.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City diversifies its investments by security type and institution. The investment policy states: “No more than 5% of the portfolio may be invested in the securities of a single issuer, except for the U.S. Treasury, to which no limits apply. No more than 30% of the portfolio may be invested in bankers’ acceptances and certificates of deposit.”

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

## Other Information

The following is a schedule of investments by fund type:

Schedule Of Investments By Fund Category And Investment Type As Of December 31, 2015			
Fund Type	US Government	Local	Total
	Agency Securities	Government Investment Pool	
General Fund	\$ -	\$ 1,716,738	\$ 1,716,738
Special Revenue Funds	-	2,172,833	2,172,833
Capital Projects Funds	-	1,256,616	1,256,616
Debt Service Funds	-	955,520	955,520
Enterprise Funds	1,000,101	4,094,300	5,094,401
Internal Service Funds	-	3,638,796	3,638,796
<b>Total:</b>	<b>\$ 1,000,101</b>	<b>\$ 13,834,803</b>	<b>\$ 14,834,904</b>

Investments above do not include \$210,325 that is from LOCAL financing.

**NOTE 5 – RECEIVABLES, DEFERRED INFLOWS OF RESOURCES, DUE FROM OTHER GOVERNMENTS**

**Property Taxes**

The Pierce County Assessor Treasurer is responsible for collecting property taxes levied in the County by all taxing districts. Amounts collected by the County on the City's behalf are remitted monthly.

**PROPERTY TAX CALENDAR**

- January 1 Taxes are levied and become an enforceable lien against properties.
- February 14 Tax bills are mailed.
- April 30 First of two equal installment payments is due.
- May 31 Assessed value of property established for next year's levy at 100% of market value.
- October 31 Second installment is due.

Taxes are levied and become an enforceable lien against properties as of January 1. Annual tax billings may be paid in two equal installments, due April 30 and October 31. At December 31, 2015, the total balance of property taxes receivable recorded by the City was \$467,403. Of this, \$324,812 is recorded as deferred inflow of resources, since it was not collected within the first 60 days of 2015.

Property taxes are recorded as a receivable when levied, offset by deferred inflow of resources. During the year, property tax revenues are recognized when cash is collected. At year-end, property tax revenues are recognized for collections expected to occur within 30 days. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible.

Under State law, the maximum levy (for general governmental services) is up to \$3.60 per \$1,000 of assessed valuation, subject to two limitations, set forth below. Since the City of Lakewood is not a full service city, the City is only allowed \$1.60. The remaining \$2.00 is for the fire district (\$1.50) and library district (\$0.50).

1. Chapter 84.55 of the State RCW was amended most recently by Initiative No. 747 (which was passed by voters on November 6, 2001), limits the total dollar amount of regular property taxes levied by the City to the amount of such taxes levied in the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction, improvements and state-assessed property at the previous year's rate. As amended by Initiative No. 747, the limit factor is the lesser of 101% or 100% plus the percent change in the Implicit Price Deflator, unless a greater amount is approved by a simple majority of the voters; and
2. The Washington State Constitution limits the total regular property taxes to 1% of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1% limit.

The City's regular levy for 2015 was \$1.38 per \$1,000 on an assessed valuation of \$4,748,231,614 for a total regular levy of \$6,536,605.

## Deferred Inflows of Resources

The table below provides details of the deferred inflows of resources as reported on the government-wide Statement of Net Position and the governmental funds Balance Sheet. \$1,660,992 of resources reported as Deferred Inflows on the Governmental Funds Balance Sheet are reported as revenue on the Government-Wide Statement of Activities because, while unavailable at December 31, 2015, the amounts were known and due to the City. Grant reimbursements are receivable within one year of the end of the fiscal period.

Deferred Inflows of Resources As of December 31, 2015					
Deferred Inflows of Resources	General	Grant	LID Debt Service	Nonmajor Governmental	Total General Government
HUD Loans	-	1,154,119	-	-	\$ 1,154,119
Local Improvement Districts	-	-	1,372,590	-	\$ 1,372,590
Public Works Trust Fund Loan - Side Sewer	-	-	-	114,001	\$ 114,001
Property Tax	324,812	-	-	-	\$ 324,812
Municipal Court	1,177,050	-	-	-	\$ 1,177,050
Abatements	-	-	-	159,130	\$ 159,130
<b>Total: Deferred Inflows - Governmental Funds</b>	<b>\$ 1,501,862</b>	<b>\$ 1,154,119</b>	<b>\$ 1,372,590</b>	<b>\$ 273,131</b>	<b>\$ 4,301,702</b>

## Receivables & Due from Other Governments

The receivables and due from other governmental entities for the fiscal year ended December 31, 2015 are detailed in the following schedule.

Receivables & Due From Other Governments As of December 31, 2015								
Receivable	General	Transportation CIP	Grant	LID Debt Service	Nonmajor Gov't	Total Gov't Activities	Total Business Type Activities	Total Primary Government
Property Tax	\$ 467,403	\$ -	\$ -	\$ -	-	\$ 467,403	\$ -	\$ 467,403
Sales and Use Tax	1,889,943	-	-	-	-	1,889,943	-	1,889,943
Other Tax	1,379,112	61,565	-	-	428,881	1,869,558	17,790	1,887,348
Municipal Court Receivables	1,498,220	-	-	-	-	1,498,220	-	1,498,220
Other Receivables	37,222	-	-	-	80,256	117,478	-	117,478
Notes/Loans Receivable	-	-	1,154,119	-	114,001	1,268,119	-	1,268,119
Abatement Assessments	-	-	-	-	116,815	116,815	-	116,815
Special Assessments	-	-	-	1,372,590	42,315	1,414,905	-	1,414,905
Lakewood Water	-	33,208	-	-	-	33,208	-	33,208
Grants	-	-	63,200	-	-	63,200	-	63,200
Animal Control	9,414	-	-	-	-	9,414	-	9,414
Pierce County	5,000	-	-	-	376,813	381,813	-	381,813
Department of Ecology	-	-	-	-	-	-	70,610	70,610
Criminal Justice Training Comm	23,407	-	-	-	-	23,407	-	23,407
Dept of Commerce	6,684	-	-	-	125,604	132,288	-	132,288
Drug Enforcement Agency	-	-	-	-	7,115	7,115	-	7,115
FBI Innocence Lost	7,228	-	-	-	-	7,228	-	7,228
FBI Safe Streets Task Force	4,353	-	-	-	-	4,353	-	4,353
Western State Hospital / DSHS	71,673	-	-	-	-	71,673	-	71,673
WSH Service Calls	13,962	-	-	-	-	13,962	-	13,962
Pierce County Storm Drainage Fees	-	-	-	-	-	-	102,885	102,885
Police Extra Duty	22,493	-	-	-	-	22,493	-	22,493
Sex Offender Residency Verification	6,343	-	-	-	-	6,343	-	6,343
Traffic Improvement Boards	-	172,386	-	-	-	172,386	-	172,386
LOCAL	-	1,444,675	-	-	-	1,444,675	-	1,444,675
WA State Dept of Transportation	-	1,238,131	-	-	-	1,238,131	-	1,238,131
Office of Economic Adjustment	-	1,292,259	-	-	15,762	1,308,021	-	1,308,021
WA Traffic Safety Commission	1,580	-	-	-	-	1,580	-	1,580
SSMCP Membership	-	-	-	-	145,000	145,000	-	145,000
Dept of Justice	-	-	-	-	38,145	38,145	-	38,145
WA State Emergency Management	-	-	-	-	26,410	26,410	-	26,410
<b>Total by Fund</b>	<b>\$ 5,444,036</b>	<b>\$ 4,242,224</b>	<b>\$ 1,217,318</b>	<b>\$ 1,372,590</b>	<b>\$ 1,517,116</b>	<b>\$ 13,793,285</b>	<b>\$ 191,285</b>	<b>\$ 13,984,570</b>

**NOTE 6 – DUE TO OTHER GOVERNMENTS**

At December 31, 2015, the City recorded \$208,534 as due to other governments as follows:

<b>Due to Other Governments</b>				
<b>As of December 31, 2015</b>				
<b>Payable</b>	<b>Nonmajor</b>		<b>General</b>	<b>Total</b>
	<b>General</b>	<b>Governmental</b>	<b>Government</b>	
Sales and Use Tax	\$ 1,662	\$ 1,234	\$ 2,896	\$ 2,896
West Pierce Fire & Rescue	205,638	-	205,638	205,638
Pierce County Surface Water Management Annual Increase	-	-	-	-
<b>Total by Fund</b>	<b>\$ 207,300</b>	<b>\$ 1,234</b>	<b>\$ 208,534</b>	<b>\$ 208,534</b>

**NOTE 7 – CAPITAL ASSETS**

Capital assets activity for governmental funds for the year ended December 31, 2015 is as follows:

	<b>Beginning Balance 1/1/2015</b>	<b>Prior Period Adjustment</b>	<b>Adjusted Beginning Balance 1/1/2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance 12/31/2015</b>
<b>Governmental Activities</b>						
Capital assets, not being depreciated:						
Land and land rights	\$ 21,085,142	\$ -	\$ 21,085,142	\$ 654,381	\$ -	\$ 21,739,523
Constuction in progress	5,229,858	-	5,229,858	11,562,667	(1,048,884)	15,743,642
Total capital assets, being not depreciated	26,315,000	-	26,315,000	12,217,048	(1,048,884)	37,483,165
Capital Assets being depreciated:						
Buildings	26,227,943	-	26,227,943	-	-	26,227,943
Improvements other than buildings	100,331,573	-	100,331,573	1,024,712	-	101,356,285
Machinery and equipment	3,470,410	(57,213)	3,413,197	115,877	(26,395)	3,502,679
Total capital assets, being depreciated	130,029,926	(57,213)	129,972,713	1,140,589	(26,395)	131,086,906
Less accumulated depreciation for:						
Buildings	(3,962,900)	-	(3,962,900)	(524,327)	-	(4,487,227)
Improvements other than buildings	(39,611,936)	-	(39,611,936)	(3,655,250)	-	(43,267,186)
Machinery and equipment	(2,474,266)	-	(2,474,266)	(233,224)	18,494	(2,688,996)
Total accumulated depreciation	(46,049,103)	-	(46,049,103)	(4,412,801)	18,494.00	(50,443,410)
Total capital assets being depreciated, net	83,980,823	(57,213)	83,923,610	(3,272,212)	(7,901)	80,643,497
<b>Subtotal Governmental Activities capital assets, net</b>	<b>\$ 110,295,823</b>	<b>\$ (57,213)</b>	<b>\$ 110,238,610</b>	<b>\$ 8,944,836</b>	<b>\$(1,056,785)</b>	<b>\$ 118,126,662</b>
<b>Internal Service Funds</b>						
Capital assets, not being depreciated:						
Land and land rights	\$ 278	\$ -	\$ 278	\$ -	\$ -	\$ 278
Constuction in progress	-	-	-	55,713	-	55,713
Total capital assets, not being depreciated	278	-	278	55,713	-	55,991
Capital assets being depreciated						
Improvements other than buildings	137,279	-	137,279	-	-	137,279
Machinery and equipment	6,346,507	86,556	6,433,063	1,531,325	(912,836)	7,051,551
Total capital assets, being depreciated	6,483,786	86,556	6,570,342	1,531,325	(912,836)	7,188,830
Less accumulated depreciation for:						
Improvements other than buildings	(23,283)	-	(23,283)	(3,432)	-	(26,715)
Machinery and equipment	(4,112,592)	-	(4,112,592)	(599,965)	907,797	(3,804,760)
Total accumulated depreciation	(4,135,875)	-	(4,135,875)	(603,397)	907,797	(3,831,475)
Total capital assets being depreciated, net	2,347,911	86,556	2,434,467	927,928	(5,039)	3,357,356
<b>Subtotal Internal Service Funds capital assets, net</b>	<b>2,348,189</b>	<b>86,556</b>	<b>2,434,745</b>	<b>983,641</b>	<b>(5,039)</b>	<b>3,413,346</b>
<b>Governmental Activities capital assets, net</b>	<b>\$ 112,644,012</b>	<b>\$ 29,343</b>	<b>\$ 112,673,355</b>	<b>\$ 9,928,477</b>	<b>\$(1,061,824)</b>	<b>\$ 121,540,008</b>

The net prior period adjustment of \$29,343 is primarily due to reclassifying General government assets to internal service assets, as well as an addition of prior year assets not previously reported.

Capital asset activity for Business-type activities for the year ended December 31, 2015, was as follows:

Business-Type Activities	Beginning	Prior	Adjusted			Ending
	Balance 1/1/2015	Period Adjustment	Balance 1/1/2015	Increases	Decreases	Balance 12/31/2015
Capital assets, not being depreciated:						
Land and land rights	\$ 1,854,448	\$ -	\$ 1,854,448	\$ -	\$ -	\$ 1,854,448
Constuction in progress	1,377,413	-	1,377,413	953,608	(2,075,679)	255,341
Total capital assets, not being depreciated	3,231,860	-	3,231,860	953,608	(2,075,679)	2,109,789
Capital assets being depreciated:						
Buildings	177,521	-	177,521	1,672,153	-	1,849,674
Infrastructure	42,190,678	-	42,190,678	403,526	-	42,594,204
Machinery and equipment	352,174	-	352,174	-	(19,842)	332,332
Total capital assets being depreciated	42,720,372	-	42,720,372	2,075,679	(19,842)	44,776,209
Less accumulated depreciation for:						
Buildings	(14,202)	-	(14,202)	(3,740)	-	(17,942)
Infrastructure	(12,781,818)	-	(12,781,818)	(1,190,522)	-	(13,972,340)
Machinery and equipment	(154,860)	-	(154,860)	(27,288)	19,842	(162,306)
Total accumulated depreciation	(12,950,881)	-	(12,950,881)	(1,221,550)	19,842	(14,152,589)
Total capital assets being depreciated, net	29,769,491	-	29,769,491	854,129	-	30,623,620
<b>Subtotal Business-Type Activities capital assets, net</b>	<b>\$ 33,001,351</b>	<b>\$ -</b>	<b>\$ 33,001,351</b>	<b>\$ 1,807,737</b>	<b>\$(2,075,679)</b>	<b>\$ 32,733,409</b>

Depreciation expense was charged to functions/programs of the primary government and is identified as follows:

Capital Asset Depreciation by Function	
As of December 31, 2015	
Governmental Activities:	
General Government	\$ 308,572
Judicial	12,137
Public Safety (Police)	862,269
Transportation (Highways and Streets)	3,470,813
Economic Environment	27,524
Utilities and Environment	-
Culture and Recreation	334,882
<b>Total Depreciation Expense - Governmental Activities</b>	<b>5,016,198</b>
Business-Type Activities:	
Utilities and Environment (Surface Water Management)	1,221,550
<b>Total Depreciation Expense - Business-Type Activities</b>	<b>1,221,550</b>
<b>Total Depreciation Expense</b>	<b>\$ 6,237,748</b>

The City has active construction projects as of December 31, 2015. The City's commitments with contractors are as follows:

<b>Construction Commitments</b>			
<b>Contract Name</b>	<b>Contract Amount</b>	<b>Payments</b>	<b>Balance at 12/31/2015</b>
<b>Construction Contracts</b>			
Ameresco	\$ 1,823,337	\$ 1,152,823	\$ 670,514
Ceccanti, Inc.	5,129,721	1,369,190	3,760,532
Elcon Corporation	384,262	222,804	161,458
Prime Electric	686,691	679,869	6,821
Puget Sound Energy	335,010	-	335,010
Tucci and Sons	1,058,207	1,004,198	54,008
<b>Vendors / Suppliers</b>			
Traffic Wrapz	6,043	-	6,043
<b>Consulting and Engineering Services</b>			
AHBL	26,000	16,853	9,147
AHBL	12,000	10,352	1,648
AHBL	33,357	-	33,357
AHBL	11,610	-	11,610
AHBL			-
Ameresco	483,581	361,424	122,157
Brown and Caldwell	195,409	83,372	112,037
Cascade Right of Way Services	77,580	30,950	46,630
Cascade Right of Way Services	57,010	43,199	13,811
DKS Associates	22,366	4,218	18,148
DKS Associates	53,337	18,562	34,775
DKS Associates	16,680	5,721	10,959
KPG	77,498	73,479	4,019
KPG	72,741	72,642	98
Larson & Associates	169,937	171,051	(1,114)
Larson & Associates	11,000	10,970	30
Tetra Tech	28,078	-	28,078
Transpo Group	60,000	47,057	12,943
Transpo Group	60,000	43,576	16,424
<b>Interlocal Agreements</b>			
WA State Dept of Transportation (Construction Mgmt)	484,135	236,880	247,256
Dept. Of Enterprise Services	62,000	-	62,000
Lakewood Water District	11,464	4,805	6,659
	<b>\$ 11,449,053</b>	<b>\$ 5,663,995</b>	<b>\$ 5,785,058</b>

## NOTE 8 – PENSION PLANS

The City participates in three retirement plans. Two are administered by International City Manager's Association (ICMA); one is administered by WA State Department of Retirement Systems (DRS). Descriptions of the plans are as follows:

### Plan 1-City of Lakewood: A Defined Contribution Plan, Retirement Trust - ICMA # 109566

During the first couple of months of 1995-96 (*the City became incorporated February 28, 1996*), the City of Lakewood employees voted not to join the State's Public Employees Retirement Systems (*PERS*). Instead, the employees of the City voted to participate in a section 401 (a) - IRS, plan administered through International City Manager's Association (*ICMA*). The plan was established under the authority of the City Council, which is responsible for amending the provisions and contribution requirements. The plan is a qualified plan – "a defined contribution plan" registered through the Internal Revenue Service (*IRS*) as a section 401 (a). The vesting schedules are the same as *PERS* with added enhancements where employees can manage their own investment portfolio of both the employee and employer contributions. Contributions to the plan are not subject to federal income tax (pre-tax dollars). All full time employees are required to participate. A vesting schedule is tied to years of service that an employee may bring from the previous vesting in *PERS* or another qualified plan. The vesting schedule is below.

Years of Service	Vesting Percentage
0 - 1 Year of Service	20%
1 - 2 Years of Service	40%
2 - 3 Years of Service	60%
3 - 4 Years of Service	80%
4+ Years of Service	100%

The table below shows the percentage contributions that are made bi-monthly by the employer and employee to this qualified money purchase plan. Contributions are made every payroll cycle (on the 5<sup>th</sup> & 20<sup>th</sup> of each month). The balance in the trust as of December 31, 2015, was \$15,913,375.

2015 Employer Contribution	2015 Employee Contribution
7.62%	5.08%
\$646,432	\$430,955

Each employee directs his/her investment among various investment options as defined by the ICMA group for both the employee and employer contributions.

Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age. Employer contributions will be distributed to the employee based upon the vesting schedule. The contract has identified regular retirement age at 55.

Plan assets, which consist of stocks, bonds, and guaranteed insurance contracts, are not the property of the City are not subject to the claims of the City's general creditors. The program is administered by a private consulting firm, the ICMA. Actuarial determinations are not required because benefits paid to participants upon retirement are limited to: (a) A non-forfeitable, non-transferable annuity contract purchased by the plan's trustee; (b) Retirement benefits paid from the employee's deferred savings to which no contributions by the City or the participants can be added after retirement; or (c) A single lump-sum payment equal to the accumulated balance in the employee's deferred savings account as of his or her retirement date.

**Plan 2-City of Lakewood: A Defined Money Contribution Plan, Money Purchase Retirement Trust-ICMA # 109266**

During the first couple of months of 1995-96 (the City became incorporated February 28, 1996), the City of Lakewood employees, through an election, voted not to join Social Security Retirement Plan (SSI). Instead, the City participates in a Money Purchase qualified plan, a defined money contribution plan - Retirement Trust Section 401 (a), administered through ICMA, which is registered with the Internal Revenue Service section 401. The plan was established under the authority of the City Council, which is responsible for amending the provisions and contribution requirements. The benefit package includes the following: 1) long term disability benefits, 2) survivor benefits for spouse and children, 3) lump sum death benefits and, 4) life benefits. Contributions to the plan are not subject to federal income tax. All full time employees and the City Council members who are under the Omnibus Budget Reconciliation Act of 1990 are required to participate. The contribution percentages are listed as follows:

2015 Employer Contribution	2015 Employee Contribution
4.77%	6.20%
\$891,181	\$1,158,348

Each employee directs his/her investment among various investment options for both the employee and employer contribution.

Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age which may include a penalty from the Internal Revenue Service. Employer contributions must be left in the plan and distributed when the participant attains age 55. Employee and employer contributions for retirement benefits are 100% vested.

Temporary employees are not part of the 401(a) plan. Temporary employees contribute to social security insurance. The balance in the trust as of December 31, 2015, was \$28,043,790.

**Law Enforcement Officers' LEOFF Plan 2**

The following table represents the aggregate pension amounts for all plans subject to the requirements of the GASB Statement 68, *Accounting and Financial Reporting for Pensions* for the year 2015:

Aggregate Pension Amounts - LEOFF 2	
Pension assets	\$3,500,512
Deferred outflows of resources	\$632,205
Deferred inflows of resources	(\$1,060,637)
Pension expenditures	(\$284,596)

**State Sponsored Pension Plans**

All City of Lakewood commissioned officers participate in LEOFF Plan 2 retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

LEOFF Valuation as of June 30, 2015	
Retirees and beneficiaries receiving benefits	\$ 10,840
Terminated plan members entitled to but no yet receiving benefits	751
Active plan members, vested	14,607
Active plan members, non-vested	2,286
<b>Total</b>	<b>\$ 28,484</b>

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems  
 Communications Unit  
 P.O. Box 48380  
 Olympia, WA 98540-8380

Or the DRS CAFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

**LEOFF Plan 2** provides retirement, disability and death benefits. Retirement benefits are determined as two percent of the final average salary (FAS) per year of service (the FAS is based on the highest consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is three percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The employer rate included an administrative expense component set at 0.18 percent. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board. The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for 2015 were as follows:

LEOFF Plan 2		
Actual Contribution Rates	Employer	Employee
State and local governments	5.23%	8.41%

The City of Lakewood's actual contributions to the plan were \$516,402 for the year ended December 31, 2015.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2015, the state contributed \$58,339,032 to LEOFF Plan 2.

### **Actuarial Assumptions**

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2015 with a valuation date of June 30, 2014. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) *2007-2012 Experience Study*.

Additional assumptions for subsequent events and law changes are current as of the 2014 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2015. Plan liabilities were rolled forward from June 30, 2014, to June 30, 2015, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 3% total economic inflation; 3.75% salary inflation
- **Salary increases:** In addition to the base 3.75% salary inflation assumption, salaries are also expected to grow by promotions and longevity.
- **Investment rate of return:** 7.5%

Mortality rates were based on the RP-2000 report's Combined Healthy Table and Combined Disabled Table, published by the Society of Actuaries. The OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout his or her lifetime.

There were minor changes in methods and assumptions since the last valuation.

- The OSA updated demographic assumptions, consistent with the changes from the *2007-2012 Experience Study Report*, used when valuing the PERS 1 and TERS 1 Basic Minimum COLA.
- The OSA corrected how valuation software calculates a member's entry age under the entry age normal actuarial cost method. Previously, the funding age was rounded, resulting in an entry age one year higher in some cases.
- For purposes of calculating the Plan 2/3 Entry Age Normal Cost contribution rates, the OSA now uses the current blend of Plan 2 and Plan 3 salaries rather than using a long-term membership assumption of two-thirds Plan 2 members and one-third Plan 3 members.
- The OSA changed the way it applies salary limits, as described in the *2007-2012 Experience Study Report*.

### **Discount Rate**

The discount rate used to measure the total pension liability for all DRS plans was 7.5 percent.

To determine that rate, an asset sufficiency test included an assumed 7.7 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. (All plans use 7.7 percent except LEOFF 2, which has assumed 7.5 percent). Consistent with the long-term expected rate of return, a 7.5 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue being made at contractually required rates (including PERS 2/3, PSERS 2, SERS 2/3, and TRS 2/3 employers, whose rates include a component for the PERS 1, and TRS 1 plan liabilities). Based on these assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.5 percent was used to determine the total liability.

## Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.5 percent was determined using a building-block-method. The Washington State Investment Board (WSIB) used a best estimate of expected future rates of return (expected returns, net of pension plan investment expense, including inflation) to develop each major asset class. Those expected returns make up one component of WSIB's capital market assumptions. The WSIB uses the capital market assumptions and their target asset allocation to simulate future investment returns at various future times. The long-term expected rate of return of 7.5 percent approximately equals the median of the simulated investment returns over a 50-year time horizon.

## Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the table below. The inflation component used to create the table is 2.2 percent and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Rate of Return Arithmetic
Fixed Income	20%	1.7%
Tangible Assets	5%	4.4%
Real Estate	15%	5.8%
Global Equity	37%	6.6%
Private Equity	23%	9.6%
	<b>100%</b>	

## Sensitivity of Net Pension Asset

The table below presents the City of Lakewood proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City of Lakewood proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
LEOFF 2	\$ 3,505,536	\$ (3,500,512)	\$ (8,772,829)
<b>Total</b>	<b>\$ 3,505,536</b>	<b>\$ (3,500,512)</b>	<b>\$ (8,772,829)</b>

## Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

## Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City of Lakewood's reported a total pension asset of \$3,500,512 for its proportionate share of the net pension assets as follows:

	Liability (or Asset)
LEOFF 2	\$ (3,500,512)

The amount of the liability/(asset) reported above for LEOFF Plan 2 reflects a reduction for State pension support provided to the City of Lakewood. The amount recognized by the City of Lakewood as its proportionate share of the net pension liability/(asset), the related State support, and the total portion of the net pension liability/(asset) that was associated with the City of Lakewood were as follows:

	Liability (or Asset)
LEOFF 2 - Employer's proportionate share	\$ (3,500,512)
LEOFF 2 - State's proportionate share of the net pension liability / (asset) associated with the employer	\$ (2,314,541)
<b>Total</b>	<b>\$ (5,815,053)</b>

At June 30, the City of Lakewood proportionate share of the collective net pension liabilities was as follows:

	Proportionate Share		Change in Proportion
	6/30/2014	6/30/2015	
LEOFF 2	0.35158%	0.34058%	-0.011%

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the *Schedules of Employer and Nonemployer Allocations* for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2015. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). In fiscal year 2015, the state of Washington contributed 87.12 percent of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88 percent of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2015, the state of Washington contributed 39.80 percent of LEOFF 2 employer contributions pursuant to RCW 41.27.726 and all other employers contributed the remaining 60.20 percent of employer contributions.

The collective net pension liability (asset) was measured as of June 30, 2015, and the actuarial valuation date on which the total pension liability (asset) is based was as of June 30, 2014, with update procedures used to roll forward the total pension liability to the measurement date.

### Pension Expense

For the year ended December 31, 2015, the City of Lakewood recognized pension expense as follows:

Pension Expense	
LEOFF 2	\$ (284,596)
	<b>\$ (284,596)</b>

### Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, the City of Lakewood reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 306,528	\$ -
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ (1,060,637)
Change of assumptions	\$ 9,233	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	\$ 57,652	\$ -
Contributions subsequent to the measurement date	\$ 258,791	\$ -
<b>Total</b>	<b>\$ 632,205</b>	<b>\$ (1,060,637)</b>

## **NOTE 9 – RISK MANAGEMENT**

The City of Lakewood is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 179 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

There were no settlements in excess of insurance for commercially insured activities for 1996 through 2015.

The following is a summary of coverage in force in 2015:

Schedule of Insurance in Force			
As of December 31, 2015			
Company	Policy Period	Details of Coverage	Limit
WCIA	1/1/15 - 1/1/16	Liability Program (Auto, General, Police, Errors or Omissions, Employment Practices, Employee Benefit and Stop Gap)	\$20,000,000 per Occurrence Subject to Aggregates and Sub-Limits.
WCIA	12/01/14 - 12/01/15	Property Program - Manuscript Policy All Risk Form	\$300,000,000 per occurrence. Sub-Limits: \$150,000,000 Earthquake per Occurrence and Annual Pool Aggregate; \$100,000,000 Flood per Occurrence and Annual Pool Aggregate, except \$50,000,000 Flood Sub-Limit within Flood Zones A and V. Other Sub-Limits may apply
WCIA	12/31/14 - 12/31/15	Auto Physical Damage Program	Actual Cash Value for Scheduled Vehicles Except Optional Replacement Cost Coverage for Vehicles over \$25,000. Deductible Waived for Glass Repair and Damaged Caused by Fire or Lightning.
Hartford Steam Boiler Inspection and Insurance Company	12/1/14 - 12/1/15	Boiler and Machinery (Equipment Breakdown) Insurance	\$100,000,000 Equipment Breakdown subject to other applicable limits.
National Union Fire Insurance Company	12/31/14 - 12/31/15	Crime/Fidelity Insurance Blanket Coverage	\$2,500,000 for: Employee Theft Per Loss Coverage, Forgery or Alteration, Inside Premises – Theft of Money and Securities, Inside Premises – Robbery or Safe Burglary of Other Property, Outside the Premises, Computer Fraud, Funds Transfer Fraud, Money Orders and Counterfeit Money, and Faithful Performance of Duty required by law.
National Union Fire Insurance Company	3/1/15 - 5/1/16	Cyber Insurance including Liability and Regulatory Action, Privacy Event Services and Event management	\$1,000,000 per WCIA Member and \$10,000,000 All members Aggregate, \$100,000 Subject to per Member Sub-Limits of \$1,000,000 Liability, \$100,000 Regulatory, and \$100,000 Event Management and \$75,000 Affected Individuals for Privacy Event Services.
ACE American Insurance Company	3/16/15 - 3/16/16	Environmental Liability for Specified Fuel Storage Tanks	\$1,000,000 Per Storage Tank Incident Limit of Liability and \$2,000,000 Aggregate Limit of Liability for all Storage Tank Incidents; \$1,000,000 Aggregate Limit of Liability for all Legal Defense Expenses for all Storage Tank Incidents; \$3,000,000 Total Policy Aggregate Limit of Liability for all Storage Tank Incidents.

**NOTE 10 – LONG-TERM LIABILITIES**

The City of Lakewood issued general obligation bonds in 2009 to finance construction of the building that houses the Police Department. A promissory note for the purchase of 59<sup>th</sup> Street was issued in 2005. In December 2014 the City Council approved an ordinance authorizing the acquisition of personal property and execution of a financing contract and for the City’s LED streetlight retrofit program. The Officer of the State Treasurer financed the transaction under its Local Option Capital Asset Lending Program (LOCAL) and certificates of participation (COPs) were sold on March 3, 2015 by competitive sale. The amount financed is \$1,460,000 and nets the City \$1,655,000. Under the provisions of the financing lease, the City is obligated to pay the State fiscal agent on December 1, 2015 and continue semi-annually thereafter through June 1, 2027. The All Inclusive Cost (AIC) of financing is 2.328%. The bonds, note payable, and COPs are considered obligations of the general government and are being repaid with general governmental revenue sources.

Arbitrage is the reinvestment of the proceeds of tax-exempt securities in materially higher-yielding taxable securities. The federal government requires that such excess earnings be remitted to the federal government (arbitrage rebate). The City reviewed the applicability of arbitrage rebate regulations on its outstanding general obligation and LID bonds and is in compliance with those regulations. The bonds issued by the City are not currently subject to arbitrage rebate as they fall under the small issuer exception (the face amount of the debt is \$5,000,000 or less).

The City has issued special assessment debt to provide funds for the residential infrastructure improvements. Special assessment bonds were created by ordinance, adopted by Council, and repaid from amounts levied against the property owners benefitted by the construction. A separate guaranty fund is available to cover most outstanding delinquencies at the end of the assessment period. The City's obligation doesn't extend beyond the guaranty fund assets. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service is due, the government must provide the resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City has an LID Guaranty Fund to finance any uncollectible special assessment debt. As of December 31, 2015, no amount of special assessment receivables was considered delinquent.

The City has four outstanding public works trust fund loans (PWTFL) in support of sewer extensions into the Tillicum and Woodbrook neighborhoods that are financed with an assessment on all Lakewood sewer accounts.

Compensated absences are a liability of the City for accrued vacation and compensatory time of employees. The liability for compensated absences in prior years has mainly been liquidated in the General Fund, and to a smaller extent, the Street Operations and Maintenance Fund, Street Capital Projects Fund and the Surface Water management fund.

Description	Date of Issue	Maturity Date	Interest Rate	Original Issue Amount	Beginning of Year O/S Debt	Amount Issued	Amount Redeemed	End of Year O/S Debt	Due in One Year	Long-Term Portion
<b>Governmental Activities</b>										
<u>General Obligation Bonds</u>										
2009 LTGO	3/31/2009	12/1/2028	2.25% - 5.0%	\$ 2,695,000	\$ 2,110,000	\$ -	\$ 115,000	\$ 1,995,000	\$ 120,000	\$ 1,875,000
2009 LTGO Premium	3/31/2009	12/1/2028	n/a	47,361	33,560	-	2,400	31,160	2,400	28,760
LOCAL Financing	3/24/2015	12/1/2027	2.33%	-	-	1,460,000	-	1,460,000	90,000	1,370,000
LOCAL Financing Premium	3/24/2015	12/1/2027	n/a	-	-	207,849	12,991	194,858	17,321	177,537
<b>Subtotal GO Bonds</b>				<b>\$ 2,742,361</b>	<b>\$ 2,143,560</b>	<b>\$ 1,667,849</b>	<b>\$ 130,391</b>	<b>\$ 3,681,018</b>	<b>\$ 229,721</b>	<b>\$ 3,451,297</b>
<u>Special Assessment Bonds (with governmental commitments)</u>										
CLID 1103 debt	12/1/2006	12/1/2026	3.75% - 4.65%	2,824,704	1,115,000	-	-	1,115,000	560,000	555,000
LID 1108	1/18/2008	12/1/2027	4.22% - 5.30%	880,000	457,959	-	49,838	408,121	61,606	346,515
<b>Subtotal Special Assessment Bonds</b>				<b>\$ 3,704,704</b>	<b>\$ 1,572,959</b>	<b>\$ -</b>	<b>\$ 49,838</b>	<b>\$ 1,523,121</b>	<b>\$ 621,606</b>	<b>\$ 901,515</b>
<u>Notes Payable</u>										
59th Street	4/30/2005	4/30/2025	Varies	1,071,000	632,713	-	53,339	579,374	55,333	524,041
<b>Subtotal Notes Payable</b>				<b>\$ 1,071,000</b>	<b>\$ 632,713</b>	<b>\$ -</b>	<b>\$ 53,339</b>	<b>\$ 579,374</b>	<b>\$ 55,333</b>	<b>\$ 524,041</b>
<u>Government Loans</u>										
PWTF - 04-691-PRE-132	7/7/2005	7/7/2024	1.00%	593,864	297,152	-	29,715	267,437	29,715	237,722
PWTF - 06-962-022	9/18/2006	9/18/2026	0.50%	5,000,000	3,533,785	-	294,482	3,239,303	294,482	2,944,821
PWTF - 08-951-025	3/1/2008	7/1/2028	0.50%	1,840,000	1,456,366	-	104,026	1,352,340	104,026	1,248,314
PWTF - 12-951-025	6/1/2012	6/1/2031	0.50%	-	-	179,295	-	179,295	313	178,982
<b>Subtotal Government Loans</b>				<b>\$ 7,433,864</b>	<b>\$ 5,287,303</b>	<b>\$ 179,295</b>	<b>\$ 428,223</b>	<b>\$ 5,038,375</b>	<b>\$ 428,536</b>	<b>\$ 4,609,839</b>
<u>Capital Lease</u>										
Copiers	10/1/2015	12/1/2018	-	60,018	-	60,018	2,723	57,295	17,355	39,940
<b>Subtotal Government Loans</b>				<b>\$ 60,018</b>	<b>\$ -</b>	<b>\$ 60,018</b>	<b>\$ 2,723</b>	<b>\$ 57,295</b>	<b>\$ 17,355</b>	<b>\$ 39,940</b>
<u>Compensated Absences</u>										
					2,218,820	2,560,192	2,519,286	2,259,726	677,918	1,581,808
<b>Subtotal Governmental Activities</b>					<b>\$ 11,855,355</b>	<b>\$ 4,467,355</b>	<b>\$ 3,183,801</b>	<b>\$ 13,138,909</b>	<b>\$ 2,030,469</b>	<b>\$ 11,108,440</b>
<u>Business-type Activities</u>										
Compensated absences					93,830	75,604	75,790	93,644	28,093	65,551
<b>Subtotal Business-type Activities</b>					<b>93,830</b>	<b>75,604</b>	<b>75,790</b>	<b>93,644</b>	<b>28,093</b>	<b>65,551</b>
<b>Total</b>					<b>\$ 11,949,185</b>	<b>\$ 4,542,959</b>	<b>\$ 3,259,591</b>	<b>\$ 13,232,553</b>	<b>\$ 2,058,562</b>	<b>\$ 11,173,991</b>

Debt activity for the year ended December 31, 2015, is recapped in the chart that follows:

Future payment requirements on debt balances are as follows:

Year(s)	Principal	Interest
2016	\$ 1,332,518	\$ 281,626
2017	880,518	238,972
2018	902,376	215,639
2019	898,791	192,657
2020-2024	4,349,246	602,160
2025-2029	2,264,103	423,470
2030 - 2031	25,614	192
<b>Totals</b>	<b>\$ 10,653,166</b>	<b>\$ 1,954,719</b>

### Computation of Legal Debt Margin

Under Washington State law (RCW 39.36.020), a City may incur general obligation debt for general city purposes in an amount not to exceed 2½ percent of the value of all taxable property within the City. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last State general election and of those voting; 60 percent must be in the affirmative. The City Council may, by ordinance, authorize the issuance of limited tax general obligation debt in an amount up to 1.5% of the valuation within the City without a vote of the people. No combination of limited or unlimited tax debt may exceed 7½ percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected with the City's councilmanic levy.

<b>Legally Remaining Debt Capacity</b>	
As of December 31, 2015	
General Government (no vote required)	\$ 67,189,100
General Government (3/5 majority vote required)	47,482,316
Parks and open space (3/5 majority vote required)	118,705,790
Utilities (3/5 majority vote required)	118,705,790
<b>Total Capacity</b>	<b>\$ 352,082,997</b>

### Compensated Absences

The City's liability for accrued vacation and compensatory time balances is recorded in the schedule below. Accrued compensated absences for proprietary fund employees are recorded as liabilities in those funds expected to incur the related future expense.

<b>Compensated Absences</b>	
For the Year Ended December 31, 2015	
<i>Governmental Activities:</i>	
Current Portion	\$ 677,918
Noncurrent Portion	1,581,808
<b>Subtotal Governmental Activities</b>	<b>2,259,726</b>
<i>Business-Type Activities:</i>	
Current Portion	28,093
Noncurrent Portion	65,551
<b>Subtotal Business-Type Activities</b>	<b>93,644</b>
<b>Total Compensated Absences</b>	<b>\$ 2,353,370</b>

### Leases

*Building Leases:* In 2006, the City entered into a 5 year cancelable lease agreement with Pierce County to provide facilities for the Senior Center, which was renewed twice for a total of for 10 years. Beginning in 2015, the City switched to an annual renewal of the lease. Building lease payments for 2015 totaled \$59,280. The future minimum lease payments are as follows:

2016 \$59,280

*McGavick Center Lease:* In 2007, the City entered into an agreement with Clover Park Technical College to contribute 11% of the construction costs for the McGavick Center. The contribution is in equal installments of \$101,850 over 20 years. In return for the contribution, the City of Lakewood has use of the center for 18 days per year for a 30 year period to be used for tourism related activities. Lease payments to Clover Park Technical College for 2015 totaled \$101,850. The future minimum lease payments are as follows:

2016	\$101,850
2017	\$101,850
2018	\$101,850
2019	\$101,850
2020	\$101,850

*Copier & Printer Leases:* The City previously entered into a twelve 60 month non-cancelable copier lease with Ricoh. Nine of the leases expired in March 2015; one lease expires in July of 2016; and the remaining two leases expire in 2018. Lease payments for existing copiers in 2015 were \$36,668. In October 2015 the City entered into a lease to own agreement with National Cooperative Leasing for 16 printers, lease payments in 2015 were \$3,159. Future minimum lease payments are as follows:

2016	\$8,358
2017	\$8,358
2018	\$8,358

**NOTE 11 – INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2015, were as follows:

Interfund Transactions		Transfer From				
		General Fund	CDBG Grant Fund	Surface Water Management Fund	Non-Major Governmental Funds	Total
Transfer To	General Fund	\$ -	\$ -	\$ 284,700	\$ 40,802	\$ 325,502
	Grant Fund	-	-	-	-	-
	Transportation CIP	689,500	163,114	989,061	2,255,199	4,096,874
	Surface Water Management Fund	-	-	-	268,989	268,989
	Non-Major Governmental Funds	1,838,211	-	35,000	500,928	2,374,139
	<b>Total</b>	<b>\$2,527,711</b>	<b>\$ 163,114</b>	<b>\$ 1,308,761</b>	<b>\$ 3,065,918</b>	<b>\$ 7,065,505</b>

The following describes the amounts transferred out during 2015:

General Fund:

- \$1,266,320 to Street O&M Fund to subsidize street operations and maintenance;
- \$35,000 to the Abatement Fund as a contribution for dangerous property abatements;
- \$50,000 for executive leadership contribution to South Sound Military Communities Partnership;
- \$340,162 to the General Government Debt Service Fund for debt service payments;
- \$146,729 to the Parks CIP Fund to fund various parks capital projects; and
- \$689,500 to the Transportation CIP Fund to fund various transportation capital projects.

CDBG Grant Fund:

- \$163,114 to the Transportation CIP Fund to fund CDBG transportation related capital project.

Surface Water Management Fund:

- \$284,700 to the General Fund for administrative fees;
- \$35,000 to the Parks CIP Fund for SWM's share of parks capital project;
- \$989,061 to the Transportation CIP for SWM's share of transportation capital projects.

Nonmajor Governmental Funds:

- \$85,878 from the REET Fund to the Parks CIP Fund for various capital projects;
- \$1,773,638 from the REET Fund to the Transportation CIP Fund for various capital projects;
- \$268,989 from the REET Fund to the SWM Fund for the public works o&m facility construction;
- \$481,565 from the Transportation Benefit District Fund to the Transportation CIP Fund for various capital projects;
- \$35,000 from the Hotel/Motel Lodging Tax Fund to the Parks CIP Fund for various capital projects;
- \$270,000 from the Sewer Project Debt Service Fund to the Sewer Capital Project Fund for the sewer capital project;
- \$40,802 from the Fleet & Equipment Fund excess proceeds/reserves to the General Fund.
- \$110,050 from the Fleet & Equipment Fund to the Information Technology Fund to implement the 6-Year IT Strategic Plan as it relates to year 2015.

The General Fund made the following interfund loans:

- \$8,718 to the Street Operations & Maintenance Fund;
- \$21,056 to the Public Safety Grant Fund; and
- \$1,752,701 to the Transportation CIP Fund.

The loans were made to cover negative cash at the end of the year. In all cases, the negative cash balance was the result of a timing difference between when grant revenues and expenditures are recognized and when cash receipts and payments actually occur.

**NOTE 12 – HEALTH AND WELFARE**

The City of Lakewood is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2015, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical insurance through Group Health, Regence BlueShield and Asuris Northwest Health, dental insurance through Delta Dental of Washington, and vision insurance through Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. The AWC Trust HCP purchases stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past

debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor’s office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board (“GASB”). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor’s office.

**NOTE 13 – OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLANS**

Trust Description

The City is a Participating Employer in the Association of Washington Cities Employee Benefit Trust (“Trust”), a cost-sharing multiple-employer welfare benefit plan administered by the Association of Washington Cities. The Trust provides medical benefits to certain eligible retired employees of Participating Employers and their eligible family members. Under Article VII of the trust document, the Trustees have the authority and power to amend the amount and the nature of the medical and other benefits provided by the Trust. The Trust issues a publicly available financial report that includes financial statements and requires supplementary information for Trust. That report, along with a copy of the Trust document, may be obtained by writing to Trust at 1076 Franklin Street SE, Olympia, WA 98501-1346 or by calling 1-800-562-8981.

Funding Policy

The Trust provides that contribution requirements of Participating Employers and of participating employees, retirees and other beneficiaries, if any are established and may be amended by the Board of Trustees of the Trust. Retirees of the City receiving medical benefits from the Trust contribute the following monthly amounts:

Plan	2015		2014	
	City	Retiree	City	Retiree
Health First - 1000				
Non-Medicare enrolled retiree coverage	\$ -	\$ 872	\$ -	\$ 830
Non-Medicare enrolled spouse coverage	-	879	-	837
Medicare enrolled retiree coverage	-	324	-	443
Medicare enrolled spouse coverage	-	323	-	456
Health First - 2500				
Non-Medicare enrolled retiree coverage	\$ -	\$ 761	\$ -	\$ 724
Non-Medicare enrolled spouse coverage	-	766	-	730
Medicare enrolled retiree coverage	-	324	-	388
Medicare enrolled spouse coverage	-	323	-	398

**NOTE 14 – BLENDED COMPONENT UNITS INCLUDED IN REPORTING ENTITY**

There is one blended component unit in the City’s reporting entity. During the fiscal year 2012, the City Council passed an ordinance establishing the Lakewood Transportation Benefit District. The Washington State RCW 36.73.020 grants cities the authority to establish a Transportation Benefit District (TBD). The Lakewood TBD governing board is comprised of all

the members of the Lakewood City Council and therefore the management of the City of Lakewood has operational responsibility of the Lakewood TBD. The operations of the Lakewood TBD are so closely related to those of the City that it is reported as if it were part of the primary government.

The transportation benefit district's sole purpose is to acquire, construct, improve, provide, and fund transportation improvements within the City of Lakewood, which is consistent with any existing state, regional and local transportation plan. RCW 36.73.065 gives the Lakewood TBD authorization to impose taxes, fees, charges and tolls. The Lakewood TBD has approved a \$20 vehicle license fee. This fee started April 1, 2015 and is imposed on vehicles registered within the district's boundaries.

The TBD is accounted for in Fund 103, a special revenue fund. Financial reporting for this fund can be found in the combining statements section of this report.

#### **NOTE 15 – CONTINGENCIES AND LITIGATION**

The City Attorney estimates that the amount of actual or potential claims against the City as of December 31, 2015 is an amount which should be within the insurance protection the City holds. The City is also involved in litigation where representation is not provided for under insurance coverage. That case involves a public disclosure request. The requestor asserts that the City's liability exceeds \$150,000. Following motions in November 2014, the superior court held the City liable for penalties in the approximate amount of \$3,500. This decision has been appealed to the Court of Appeals by the requestor, argument held in October 2015, and a decision is pending.

#### **NOTE 16 – SUBSEQUENT EVENTS**

On April 4, 2016, the City Council approved an ordinance authorizing the refund of the 2009 LTGO Bond. On April 19, 2016, the City issued refunding bonds (2016 LTGO Refunding Bond). The 2009 LTGO bond callable on June 1, 2019 is \$1,630,000. The total 2016 LTGO Refunding Bond issued is \$1,884,032. The net present value savings from refunding is \$131,222 or 8.05%.

#### **NOTE 17 – ACCOUNTING AND REPORTING CHANGES**

##### *Fund Additions and Deletions*

During the fiscal year 2015, the following funds were added:

- Special Revenue Fund – Transportation Benefit District Fund
- Capital Improvement Project Fund – Transportation Capital Project Fund

During the fiscal year 2015, the following funds were deleted:

- Fiduciary Funds – Municipal Court Trust Account Fund and Section 125 Fund

##### *Adoption of New GASB Statement*

The City adopting reporting requirements of the GASB Statement 68, Accounting and Financial Reporting for Pensions for the fiscal year 2015. See note 8 for implementation.

**City of Lakewood**  
**Schedule of Proportionate Share of the Net Pension Liability (Asset)**  
**LEOFF 2**  
As of June 30, 2015  
Last 10 Fiscal Years\*

	2015
Employer's proportion of the net pension liability (asset)	0.3%
Employer's proportionate share of the net pension liability (asset)	\$(3,500,512)
State's proportionate share of the net pension liability (asset) associated with the employer	<u>\$(2,314,541)</u>
Total	<u><u>\$(5,815,053)</u></u>
Employer's covered employee payroll	\$10,067,043
Employer's proportionate share of the net pension liability as a percentage of covered employee payroll	-34.8%
Plan fiduciary net position as a percentage of the total pension liability	111.7%

\* 2015 is the first year of reporting, therefore, prior years' information is not available.

**City of Lakewood**  
**Schedule of Employer Contributions**  
**LEOFF 2**  
As of December 31, 2015  
Last 10 Fiscal Years\*

		2015
Statutorily or contractually required contributions	\$	516,402
Contributions in relation to the statutorily or contractually required contributions	\$	(516,402)
Contribution deficiency (excess)	\$	-
Covered Employer Payroll	\$	9,525,162
Contributions as a percentage of covered employee payroll		5.4%

*\* 2015 is the first year of reporting, therefore, prior years' information is not available.*

**City of Lakewood**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Cluster Title/Federal Program	CFDA Number	Other Award Number	Expenditures			Passed Through to Sub-Recipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Office Of Economic Adjustment, Department Of Defense	Community Investment	12.600	HQ00051210036	\$ -	\$ 1,533,313	\$ 1,533,313	\$ -	
Office Of Economic Adjustment, Department Of Defense	Community Economic Adjustment Assistance for Compatible Use and Joint Land Use Studies	12.610	EN1320-13-01	\$ -	\$ 152,568	\$ 152,568	\$ 144,360	4
<b>CDBG - Entitlement Grants Cluster</b>								
Office Of Community Planning And Development	Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-53-0016	\$ -	\$ 146,433	\$ 146,433	\$ 94,341	4
Department of Housing and Urban Development			B-14-MC-53-0016	\$ -	\$ 210,288	\$ 210,288	\$ 140,894	4
			B-15-MC-53-0016	\$ -	\$ 25,707	\$ 25,707		
			B-15-MC-53-0016	\$ -	\$ 1,575	\$ 1,575		
			B-15-MC-53-0016	\$ -	\$ 65,593	\$ 65,593	\$ 18,757	4
<b>Total CDBG - Entitlement Grants Cluster:</b>				<b>\$ -</b>	<b>\$ 449,596</b>	<b>\$ 449,596</b>	<b>\$ 253,992</b>	
<b>CDBG - State-Administered CDBG Cluster</b>								
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Washington State Department of Commerce)	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawai	14.228	08-F6401-012	\$ 18,402	\$ -	\$ 18,402	\$ -	
<b>Total CDBG - State-Administered CDBG Cluster:</b>				<b>\$ 18,402</b>	<b>\$ -</b>	<b>\$ 18,402</b>	<b>\$ -</b>	
Office Of Community Planning And Development, Department Of Housing And Urban Development (via Tacoma Community Redevelopment Authority)	Home Investment Partnerships Program	14.239	2015-193	\$ 326,274	\$ -	\$ 326,274	\$ 271,362	4
Violence Against Women Office, Department Of Justice (via Washington State Department of Commerce)	Violence Against Women Formula Grants	16.588	F14-31103-083	\$ 28,397	\$ -	\$ 28,397	\$ -	
<b>JAG Program Cluster</b>								
Bureau Of Justice Assistance, Department Of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0469	\$ -	\$ 8,894	\$ 8,894	\$ -	
			2013-DJ-BX-0212	\$ -	\$ 34,733	\$ 34,733	\$ 31,041	4
			2014-DJ-BX-0200	\$ -	\$ 10,494	\$ 10,494	\$ 10,494	4
<b>Total JAG Program Cluster:</b>				<b>\$ -</b>	<b>\$ 54,121</b>	<b>\$ 54,121</b>	<b>\$ 41,535</b>	
Criminal Division, Department Of Justice	Equitable Sharing Program	16.922	WA0272300	\$ -	\$ 83,840	\$ 83,840	\$ -	
US Department of Justice	Federal Bureau of Investigation - Safe Streets Task Force	16.999	281D-SE-88930	\$ -	\$ 17,282	\$ 17,282	\$ -	
	Federal Bureau of Investigation - Pacific Northwest Innocence Lost	16.999		\$ -	\$ 26,998	\$ 26,998	\$ -	
<b>Total CFDA 16.999:</b>				<b>\$ -</b>	<b>\$ 44,280</b>	<b>\$ 44,280</b>	<b>\$ -</b>	
<b>Highway Planning and Construction Cluster</b>								
Federal Highway Administration (FHWA), Department of Transportation (via Washington Department of Transportation)	Highway Planning and Construction	20.205	STPUL-2947(017)	\$ 304,133	\$ -	\$ 304,133	\$ -	
			CM-2885(004)	\$ 92,107	\$ -	\$ 92,107	\$ -	
			CM-0665(004)	\$ 493,067	\$ -	\$ 493,067	\$ -	
			HSIP-3136(005)	\$ 105,052	\$ -	\$ 105,052	\$ -	
			STPUL-2947(016)	\$ 100,135	\$ -	\$ 100,135	\$ -	
			TAP-3082(001)	\$ 37,929	\$ -	\$ 37,929	\$ -	
			STPUL-2947(019)	\$ 195,675	\$ -	\$ 195,675	\$ -	
			STPUL-3136(006)	\$ 545,675	\$ -	\$ 545,675	\$ -	
			CM-9927(059)	\$ 5,506	\$ -	\$ 5,506	\$ -	
			CM-3136(007)	\$ 2,801	\$ -	\$ 2,801	\$ -	
			HSIP-3000(003)	\$ 4,176	\$ -	\$ 4,176	\$ -	
			HSIP-000S(424)	\$ 633	\$ -	\$ 633	\$ -	
			HSIP-000S(324)	\$ 5,000	\$ -	\$ 5,000	\$ -	
<b>Total Highway Planning and Construction Cluster:</b>				<b>\$ 1,891,889</b>	<b>\$ -</b>	<b>\$ 1,891,889</b>	<b>\$ -</b>	
Federal Railroad Administration (FRA), Department Of Transportation (via Washington Department of Transportation)	ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service - Capital Assistance Grants	20.319	RRB-1083	\$ 340,641	\$ -	\$ 340,641	\$ -	
<b>Highway Safety Cluster</b>								
National Highway Traffic Safety Administration (NHTSA), Department Of Transportation (via Washington Association of Sheriffs and Police Chiefs)	State & Community Highway Safety	20.600		\$ 10,655	\$ -	\$ 10,655	\$ -	
				\$ 2,214	\$ -	\$ 2,214	\$ -	
				\$ 913	\$ -	\$ 913	\$ -	
				\$ 1,574	\$ -	\$ 1,574	\$ -	
				\$ 419	\$ -	\$ 419	\$ -	
<b>Total Highway Safety Cluster:</b>				<b>\$ 15,775</b>	<b>\$ -</b>	<b>\$ 15,775</b>	<b>\$ -</b>	
Department Of Homeland Security (via Washington State Parks and Recreation Commission)	Boating Safety Financial Assistance	97.012	3314FAS140153	\$ 16,037	\$ -	\$ 16,037	\$ -	
Department Of Homeland Security (via Okanagan County)	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	15-3300	\$ 6,244	\$ -	\$ 6,244	\$ -	
Department Of Homeland Security (via Washington State Military Department)	Emergency Management Performance Grants	97.042	EMPG E15-087	\$ 53,856	\$ -	\$ 53,856	\$ 53,856	4
			EMPG E16-123	\$ 26,410	\$ -	\$ 26,410	\$ 26,410	4
<b>Total CFDA 97.042:</b>				<b>\$ 80,266</b>	<b>\$ -</b>	<b>\$ 80,266</b>	<b>\$ 80,266</b>	
<b>Total Federal Awards Expended:</b>				<b>\$ 2,723,925</b>	<b>\$ 2,317,718</b>	<b>\$ 5,041,643</b>	<b>\$ 791,515</b>	

The accompanying notes to the Schedule of Expenditures of Federal Awards is an integral part of this schedule

**City of Lakewood**  
**Notes to the Schedule of Expenditures for Federal Awards**  
For the Year Ended December 31, 2015

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Lakewood's financial statements. The City uses the accrual method of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the (city/county/district's) portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - REVOLVING LOAN FUND - PROGRAM INCOME

The city administers a revolving loan program for CDBG Down -Payment Assistance, Major Home Repairs, and Economic Development loans. Under this federal program, repayments to the city program are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to participants for the year was \$18,767 and is presented in the schedule. The amount of loan repayments for the year was \$95,104.

NOTE 4 - AMOUNTS AWARDED TO SUBRECIPIENTS

Included in the total amount expended for this program is a)\$144,360; b)\$94,341; c)\$140,894; d)\$18,757; e)\$271,362; f)\$31,041; g)\$10,494; h)\$53,856; i)\$26,410 that was passed through to a subrecipient.

NOTE 5 - LOAN GUARANTEE

Section 108 Loans approved by the U.S. Department of Housing and Urban Development. CFDA 14.248  
1) Curbside Motors Incorporated in the amount of \$700,000 with the loan term from 2014 - 2035.  
2) Living Access Support Alliance in the amount of \$310,000 with the loan term from 2015 - 2035.  
The City of Lakewood participates in the U.S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program in order to leverage economic development projects. The City is able to guarantee up to five times its annual CDBG allocation. The block grant is partial guarantee for the loan, and no City funds are pledged for the 108 loan. The Bank of New York Mellon serves as the City's custodian under a Custodial Agreement, disbursing the Section 108 funds to the borrower, receiving loan payments from the borrower, and remitting the repayments to HUD.

NOTE 6 - FEMA

Department of Homeland Security - Federal Emergency Management Agency - Okanogan County Fire CFDA - 97.036 - The City of Lakewood participated in a Washington Mutual Aid Event. WEBEOC # WA-2015819956 & WAMAS # WMA-0020. Our expenditures of \$6,243.78 are part of a "large" project, and as of 3/23/16 are awaiting approval at the state level.

NOTE 7 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OF 2009

Expenditures for this program were funded by ARRA.

NOTE 8 - INDIRECT COST RATE

The City of Lakewood has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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